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ECONOMIC POLICY, ORGANIZATION, MANAGEMENT

Aganbegyan, New Editor Granberg Discuss EKO'S Content, Philosophy

18200213 Novosibirsk *EKONOMIKA I
ORGANIZATSIYA PROMYSHLENNOGO
PROIZVODSTVA* in Russian No 1, Jan 89 pp 3-17

[Exchange of views between Abel Gezevich Aganbegyan, academic secretary of the Economics Department of the USSR Academy of Sciences and former EKO editor-in-chief, and Aleksandr Grigoryevich Granberg, corresponding member of the USSR Academy of Sciences, director of the Institute for the Economics and Organization of Industrial Production of the Siberian Branch of the USSR Academy of Sciences, and new EKO editor-in-chief, prepared as published by the Feedback Department of EKO: "Both Traditions and Renewal"]

[Text] "Large changes are taking place in the editorial staff as indeed throughout the entire country. There have been changes in the people running the magazine. Are changes taking place in its content and orientation, will the previous orientation be preserved?" Readers began to put such questions when on the title page of No 11 for 1988 they saw the list of new members of the editorial collegium.

The changes in the journal which have aroused readers actually took place quite a bit earlier: the new editor-in-chief was installed back last spring, and the entire new membership of the editorial collegium in early September. The last issues of this past year can by virtue of their content answer in part the question as to what changes are taking place in the journal. Abel Gezevich Aganbegyan, academic secretary of the Economics Department of the USSR Academy of Sciences, and Aleksandr Grigoryevich Granberg, corresponding member of the USSR Academy of Sciences and director of the Institute for the Economics and Organization of Industrial Production of the Siberian Branch of the USSR Academy of Sciences, who has replaced him at the "helm" of the journal, have agreed to dispel the remaining doubts.

[EKO] As the saying goes, the past is the teacher of the present. Still more of the future. So, before speaking about what the journal will be, let us look back at its beginnings. One reader has called EKO the "stormy petrel of restructuring." How close does that metaphor come to actual reality?

[Aganbegyan] I feel that our success was related to the fact that the reader in the seventies was simply starved for objective and truthful information, and from the very beginning the journal did not join the chorus of those who spoke in a loud voice mainly about achievements and dwelled only incidentally "on certain shortcomings."

The price of these hymns of praise and official reports was obvious to us who were members of the EKO editorial collegium, scientists of the Institute for the Economics and Organization of Industrial Production of the Siberian Department of the USSR Academy of Sciences, whose ideas "were providing nourishment" to the journal. During those years, the development of our society had slowed down and even started backward. The country was lagging behind more and more, but the press was keeping the illusion alive that we were prospering. Studies of the institute stamped "done secretly" gathered dust on the shelves of many leading institutions, and even those few trusted people who had "access" were little interested in them. In such a situation, there was a natural desire to bring to a broad readership objective evaluations of the economic processes taking place. It was in fact on that wave that interest in the journal grew.

[Granberg] I also think that the main thing in EKO in the seventies was that it looked at the world without rose-colored glasses. This was also what defined readers' special attitude toward us. A critical attitude toward reality was always characteristic of the journal, and this orientation will be preserved. But these are different times. All publications are filled with criticism, and that is why we have to transfer the center of gravity to a constructive program. The journal in fact prepared restructuring in that it anticipated many decisions taken at the top level. Development of collective forms of the organization of work and improvement of the economic mechanism are examples. We might also name problems on which the journal figured as the pioneer of the new: management consultation, refinement of economic indicators, socialist enterprise, the broad transition to revolutionary technologies, and many others.

[Aganbegyan] Many brilliant names and interesting articles that have appeared in our journal might be mentioned. S.G. Strumilin, member of the academy and patriarch of economic science, gave us a send-off in that the first issue of EKO opened with his recollections. We are indebted to him for an acute examination of the problems of the economic mechanism. EKO prepared its restructuring, and has always stood for development of the market and transition to economic methods of management and expansion of material incentives.

We are deeply grateful to our authors—economists, lawyers, managers in the economy—who have fought for these things vigorously. We recall the astute articles of our beloved author Aleksandr Mikhaylovich Birman on the problems of invigorating commodity-money relations. Or those of Yevsey Grigoryevich Liberman, with whom we collaborated for many years. He was a man who made an immense contribution to the development of economic methods and to preparation of the 1965 reform. Many people became engrossed in the brilliant articles of Georgiy Andreyevich Kulagin, who held the position of director of the Leningrad Machinebuilding Association imeni Ya.M. Sverdlov.

It is very important that our journal has paid much attention to the economic problems of scientific-technical progress and to its directions. We succeeded in laying the foundation for an alliance of economists and natural scientists, specialists in the engineering sciences, engineers of major rank. In any case, the economy is not the business of economists alone: this is the business of the entire people, just as a school is not the business of teachers alone, but of all society. And it is very important to strengthen that alliance. We had an entire series of articles on these topics. We recall I. Ognev's essay "The Fate of Technology"—about the grievous fate of hydraulic excavation and of those who defended this progressive method, along with the articles about A.A. Deribas' discovery of explosion welding.

It is quite an important virtue of EKO that it is an unofficial journal, it is free of departmental bias and can take its own point of view. No one has to subscribe to us in the way that departmental organizations are required to subscribe to the journals of their departments. People subscribe to EKO because they want to. We are the only economics journal in the country where the bulk of subscriptions come from individuals rather than institutions. And people are spending their own money for us. Over 19 years, the journal's circulation has grown from 8 to 150,000 copies, and we hope that that is not the limit.

[EKO] And what have you not managed to do in those years?

[Aganbegyan] In the big picture, we all of us together, including the journal, failed to overcome the stagnation. We saw how it was "warping" our economy, but we were unable to write about everything in the journal. Although more than 10 years ago the institute repeatedly sent out official memoranda containing unfavorable assessments. For example, this conclusion was reached in a 1979 note of ours to the government: "The USSR economy faces a disaster." But, alas, we were unable to arouse the Brezhnev leadership to take major steps. In large part, we were even unsuccessful in supporting progressive experiments. The Shchekino experiment was ruined, nor were we able to defend the brigade contract from degeneration—it became a formality. We were also unable to apply at home anything worthwhile from Hungary's experience, although we published many articles. We were even unsuccessful in saving Ivan Nikiforovich Khudenko, the well-known agricultural experimenter: When they sent him to prison, T.I. Zaslavskaya and I wrote a letter to Kunayev, but nothing came of it.

Nor was much accomplished by our battle over particular technical problems: it was not just explosion welding and hydraulic excavation which failed, but even detergents based on surface-active agents. The most that was accomplished was certain partial improvements.

We made little progress in developing an up-to-date economic theory of socialism, which is why we undertook restructuring without sufficient theoretical development, although we did have a general conception. This is

our misfortune. Spadework had, of course, been done: there were scientists, there were ideas, there were interesting developments, there were far-reaching proposals. But we had to face the truth: we simply had not built a complete conception of management. The science of economics was in a state of crisis from which I think it is gradually emerging.

The second most important factor is that little attention was paid in the journal to the organization of production, to the organization of management, although those were our special topics. We suffer more than anything else from a low level of organization and only thereafter from poor technology. With the same people, it would be possible to do far more if we had a sensible organization of production, measures in the field of economic organization, and the economic system.

By present-day standards, there was little discussion or conflict between ideas and opinions in the journal.

The social sphere has been lagging disastrously behind in the country. The journal did address this problem, but still there were not very many effective articles on the problems of the prosperity of the people, the standard of living, the housing supply, the organization of consumer services and medical service.

[Granberg] And it is evident that it was all of this that kept subscriptions from rising last year....

[EKO] Isn't it because the journal's pool of potential readers has been exhausted? Who did EKO have in mind when it was started, and does it intend to attract new groups of readers?

[Aganbegyan] EKO was conceived as a journal of a fundamentally new type: It was to become a bridge between science and practice, not only to popularize the problems of economic theory for a broad readership, but also to elucidate progressive know-how that has been gained in our country and abroad.

We counted on progressive-thinking and progressive-acting managers in the economy at all levels, from Gosplan and ministries to enterprises, who needed a scientific assessment of what had happened, and who needed a broader economic horizon. And in that connection, as surveys have shown, the range of our readership is very broad—from the worker to the minister. The largest readership groups are engineers working in shops, technical departments, and design offices. Quite a few enterprise directors as well.

[Granberg] I share the journal's original idea completely. It will continue in the future to count above all on people with a businesslike approach, active participants in economic life, those who need new economic ideas, who need to understand ways of solving real economic problems. The journal is read above all by management

personnel at all levels. According to our data, 51 percent of the readers are production personnel: EKO is their main journal, and I hope it will remain so.

[Aganbegyan] Approximately a third of the journal's readers are scientific associates, personnel in design offices and laboratories, teachers and even students in VUZ's. One out of every six readers has an academic degree.

[Granberg] For scientists, this is the second or even third journal. The first, as surveys have shown, are the technical and specialized journals as well as VOPROSY EKONOMIKI, PLANOVOYE KHOZYAYSTVO, and BUKHGALTERSKIY UCHET. Women are in the minority among our readers—18 percent. It seems that EKO gains if it becomes a family journal, if women and children find something interesting and something for themselves in it. Not much, but something, as they say, that they would remember. Especially young people—school pupils and university students.

[Aganbegyan] As a matter of fact, we have not done much to address young people. In the years that the journal has been published, an entire generation could have grown up on our ideas with new economic thinking. But we did not do this, we were not successful.

[Granberg] It is mandatory that economics be taught in secondary school. An attempt has been made to institute a course in the elements of economic knowledge when public education was being reformed, but it was rejected. We have a duty to fill this "blank spot," and that is why we are looking for writers able to write in an interesting way even for secondary school students.

But at the same time, the journal's previous orientation will be preserved. For the reader-practitioner, it must not become something midway between LITERATURNAYA GAZETA and NAUKA I ZHIZN. This would signify that EKO is not performing its main task. We do not want to lose our own reader with whom we have had a close relationship and who of all periodicals opens EKO first. The editors have been constantly studying their readership, and this effort will continue and be expanded using up-to-date data processing equipment. It is better to speak of attracting large new groups of readers in terms of a supplemental task. I think the main thing is something else: the journal has still not reached all of its potential readers. And although EKO is the most popular economics journal in the country, there are after all many thousands of industrial enterprises that do not receive the journal!

[Aganbegyan] When EKO was created, we had in mind a circulation of half a million. Either that task was unrealistic, or we did not work hard enough at it. I think it is more likely to be the latter. At first, EKO's circulation increased rapidly against the background of declining interest in other economics publications. Its readership

has not been growing in recent years, although the interest in economics has spilled over the top, and economic journalism has very like become more popular than fiction.

[Granberg] We began to fall behind events, we have not been quick to attract interesting new authors. We let the moment slip when we should have undertaken a determined renewal, advanced fresh ideas, and changed our format. After all, sooner or later everything loses the charm of newness. And our readers have written to us about this repeatedly. I do not think that the journal has gotten worse, but that now this is not enough. The lag of the printing plant, the excessively long publication cycle, which prevented us from responding quickly to fateful events, have made themselves felt more and more strongly. As a consequence, it is no longer uncommon for us to prepare material quickly, but then it is published earlier in other publications.

[EKO] And what does the change in the journal's management mean? Is this a natural process or a "palace revolution"?

[Aganbegyan] I did not give up the position of editor-in-chief because I am afraid of the difficulties which in the period of glasnost await every journal, including our own. EKO is the best thing I have managed to do in my life. In 1985, I moved to Moscow, but I continued to manage the journal, especially since there had always been a Moscow section of the editorial collegium from the very outset. But it is, of course, abnormal to manage from Moscow an editorial office that is in Novosibirsk, and it was not possible to stretch that period out to any length. I bowed to the well-known decision—and I fully share it—of a more rigid rotation of personnel. For editors-in-chief and editorial collegiums of publications of the Academy of Sciences, a tenure of no more than two 5-year terms has been established. All the economics journals and a majority of other journals have changed managers.

I am convinced that any publication needs regular renewal of its personnel, its ideas, and the ways in which it communicates with readers. Younger people are needed for this, and I hope that they will go further. But I will continue to work on EKO as a member of the editorial collegium.

[Granberg] There has been no "palace revolution" in the journal, since the ties between the two editorial collegiums—the members of the old one and the members of the new one—are fairly strong. Continuity will be preserved. I personally became a member of the editorial collegium in 1979, and after Abel Gezevich's departure, I became director of the Economics Institute of the Siberian Branch of the USSR Academy of Sciences. It might thus be said: I am not only his "replacement," but also his collaborator.

I want to take advantage of this opportunity to express my gratitude to the members of the editorial collegium who have traveled together on the long and thorny road of the creation, evolution, and development of EKO. They have remained honorary members of the editorial collegium, they will take part in its expanded sessions in which we will discuss the fundamental issues in the journal's development.

[EKO] Readers ask: Won't the journal be affected by the departure from the editorial collegium of L.I. Abalkin and T.I. Zaslavskaya, members of the academy, P.G. Bunich, corresponding member of the USSR Academy of Sciences, and other famous scientists?

[Granberg] First, they will continue to be our authors, and we hope that they will appear in the pages of EKO still more frequently than earlier.

Second, I would like to mention that along with the well-known economic scientists and enterprise directors who were members of the first EKO editorial collegium in the 1970 and 1979 "convocations," there were also young candidates and doctors of sciences and there were no members of the academy at all. The journal has grown, and its creators have grown with it. Many of the former members of the editorial collegium have headed the most important institutes in Moscow and central departments. L.I. Abalkin is now a member of the academy and a member of the Presidium of the USSR Academy of Sciences. Yu.I. Tychkov is a deputy minister, Ye.G. Antosenkov is director of the Scientific Research Institute for Labor, T.I. Zaslavskaya heads the Center for Study of Public Opinion, L.I. Kozlov is chairman of the Council for the Study of the Productive Forces, V.N. Shchukin is director of the Central Economics Scientific Research Institute of RSFSR Gosplan. Gradually, the balance between the Moscow and Novosibirsk sections of the editorial collegium has shifted to the advantage of Moscow, which has not been helpful to the work of the editorial office in Novosibirsk.

When readers opened No 12 for last year, where the new membership of the editorial collegium was listed on the inside cover, they saw that along with the well-known economic scientists and production people and officials of central authorities there were young scientists who have, I believe, an important road ahead of them.

[Aganbegyan] People make all the difference. The colossal boom of NOVYY MIR, ZNAMYA, and OGONEK has largely been related to a change of editors.

[EKO] These journals have been attracting the best energies to themselves, they have been printing acute and significant articles about economics. What will EKO be like in the atmosphere of fierce competition? How does it see its place among economics publications and publications which are not exclusively economic?

[Aganbegyan] Yes, many journals have been publishing economics articles of the greatest interest. NOVYY MIR, ZNAMYA, OGONEK, LITERATURNAYA GAZETA raised serious economic problems even earlier. But these are separate and individual articles from which you do not get an idea of how the economy is moving and how it is being managed. There is no integral economic system. Nor indeed is that even part of the task of those publications. Today, they are writing about the economy, tomorrow it will be about history, and above all about morality. But at the same time, the range of people interested in economics and professionally employed at activity in the field of economics—practitioners in the economy, is very broad. And we need to create a new image for the journal in the context of glasnost. We have been yawning a good deal, other publications have restructured themselves more rapidly, and they have actually begun a new life.

[Granberg] I do not feel that we have to compete with the thick literary magazines or with OGONEK. We have other tasks. We need rather to collaborate, to shed light on problems from different positions and in different forms. In fact, earlier we did have that kind of cooperation. For example, the round-table discussion on problems of ecology jointly with the journal NOVYY MIR. It is a pity that the article appeared only in EKO, the censorship in the capital did not pass it.

We intend to establish contacts with central newspapers that are close to us in spirit and to take advantage of their being on top of things: an announcement, a brief exposition of the gist of the problem, would appear in the newspaper, and the magazine version in EKO. We will in general be ready to enter into partnership with other publications both within the country and also abroad. That kind of exchange of information is to the reader's benefit. But I cannot imagine that a literary journal could hold a candle to EKO as to theoretical articles, analysis of progressive know-how, and scientific consultations on problems of management. To be sure, I acknowledge without reservation that these publications have noticeably "raised the sights" of economic journalism.

[EKO] It would be good to dwell in more detail on the question of economic journalism. Many readers have written that it is no longer the professional economists who are the "opinion leaders," but the journalists who write on economic topics....

[Granberg] I would not set economic science and economic journalism in such sharp opposition to one another. First, many well-known journalists—A. Agranovskiy, A. Nezhnyy, N. Andreyev, A. Levikov, and others—have appeared in EKO from the first years of its existence. We printed essays of production practitioners and scientists. The department "Portraits of Men of Affairs," which has been a favorite with readers, is also journalism! Thus, in EKO we have tried to take advantage of the capabilities of that genre. Journalism presents

a bright and fresh incision of reality, it awakens thought, it attracts attention to the most acute problems, it has an impact on the emotions, and it reveals man's role in economic processes. This is a kind of "developing attack." But it cannot provide an exhaustive analysis of the patterns of economic processes, much less a quantitative analysis, although good journalism is often the original inspiration of a scientific analysis of a problem. Strict facts and figures are the economist's bread and butter. Painstaking economic studies are not as spectacular, but without that there is a danger that ideas will go up like fireworks and not leave a trace.

Take this question as an example. We are talking a great deal now about what the economy must give the social sphere. Yet the relationship in the opposite direction is just as important. Studies need to be made of the patterns of consumer behavior, how working conditions, the conditions of distribution, the organization of wages affect the productivity of labor and the output-capital ratio, what results will come from particular innovations in the social sphere. Unfortunately, 25-30 years ago we were closer to high aspirations in such research than we are now. There has been a decline in people who like to study this. That is why plans and forecasts often originate in very approximate opinions.

We will continue and will develop the journalistic line in the magazine. I hope that it is in our journal that readers will be able to read the new essays of A. Nuykin, V. Selyunin, N. Shmelev, and talented new writers. The difficult task here is to define our own line among the numerous articles of journalists on economic problems. Especially since there is now large-scale popularization of widely differing and sometimes rather doubtful views as to the prospects for the country's economic development. There are disputes about the limits of the market, calls are being issued to seek out particular pathways related to the "artel" and "commune" approach. It is not the part of EKO to stand aloof from these discussions.

[EKO] So, how do you see EKO in 1989 and the more remote future?

[Granberg] In spite of the competition with other journals, I hope our readership will expand. While not becoming less serious, the journal will as before address a broad readership of people in the economy. I feel that its practical orientation must be strengthened. At present, enterprises are not always ready to grasp the progressive ideas advanced by economic science. It is our task to implement the radical economic reform at the fastest pace. It would be worthwhile to familiarize readers more broadly with the views of foreign researchers concerning the problems of our development. Sometimes things are more visible from outside. Soviet economic thought has worn blinders for too long, and a familiarity with serious sovietologists will help us to see certain of our problems with different eyes. We will more often be offering the experience of foreign countries not

as interpreted by our authors, but in the original—"at firsthand." The impartiality with which foreign economists evaluate their own problem gives food for thought.

The next line is the systematic economics education of our readers. We made such attempts in the past.

In general, our economic science is distinguished by particular modesty, it has not popularized the achievements of the past, and has meekly agreed that it stands "in perpetual debt." Many of the heights of economic thought have been forgotten. The names and theories of N.D. Kondratyev and A.V. Chayanov are being revived, but many dozens of brilliant economists of the past remain utterly unknown to the contemporary reader. Nor was there any echo in the country of the 80th birthday of the distinguished American and Russian scientist Wasilii Leontieff, winner of the Nobel Prize. And who of us knows the names of the more than 20 other Nobel laureates in economics?! We expect to fill that gap by establishing a new department "Achievements of Economic Thought."

There will also be a change in the content of the department "Among Books." We have usually printed ordinary reviews, but we need reflections on books. In cooperation with economics publishing houses, we will attempt to offer regular announcements of books being published on economic topics so as to attract attention to really interesting publications and to help them to find their readership.

The books by D. Carnegie, N. Parkinson, A. Blokh's "Zakon Merfi" [Murphy's Law], A. Haley's novels "Menyal" [The Moneychangers] and "Peregruzka" [Overload], and J. McNeil's "Konsultant" [The Consultant], which were published in EKO, enjoyed great success. Beginning with this issue, we are printing the second half of "Zakon Merfi," and we are looking and negotiating for relatively new literary works on economic topics able to capture the reader's interest.

We also learn from readers. In the summer of 1988, we organized a motor trip from Riga to Kuybyshev. We conducted 17 conferences with readers. Everywhere, readers said: Unless there is intraplant cost accounting (khozraschet), there will be no restructuring. This determined one of the main topics of the day to which we had previously paid little attention.

[Aganbegyan] Yes, that is a gap. Not only in the journal, but also in working out the most recent economic mechanism. The problem is extremely important. The main thing in restructuring is that it affect the entire collective, not just the director. Quite often, at the present time they are working in the shops and sections in the old way, restructuring has not yet reached every work station. That is why the problems of intraplant cost

accounting, the collective contract, the downward dissemination of the second form of cost accounting, and the development of leasing relations are a most important matter.

[EKO] Where are the people who can write about that?

[Aganbegyan] We have to explore to find where this has been developed and shed light on the experience.

[EKO] How and when do you propose to realize these ideas in the journal?

[Granberg] They are already being realized in large part. From the moment when I was appointed editor-in-chief of EKO in the spring of 1988, there has been a "restructuring on the march" taking place in the journal. Beginning in the 2d half of 1988, the new departments made their appearance: "Point of View," "At the Intersection of Views," and articles of well-known sovietologists and economists from the socialist countries have been published. Articles have been published on the occasion of the 100th anniversary of the birth of N.I. Bukharin, including the article by Nikolay Ivanovich entitled "Notes of an Economist"; an article by the distinguished Soviet economist V.V. Novozhilov on a completely up-to-date topic: "Shortage of Goods." We are also continuing to publish large articles devoted to the key problems of restructuring. One of the very next issues is being devoted to relations between enterprises and local government authorities, and then in sequence—regional cost accounting and new forms of foreign economic activity.

I would like to draw the attention of readers to the department "Man and Economics." In the next issue, we are publishing an article "Twenty-Five Kilometers to Aeroflot Day"—about the case of the EKO author Kh.G. Khusnutdinov, who has been under investigation for showing economic initiative. And this did not occur in the period of stagnation, but now, when the Law on the Enterprise came out, when the principle is being declared of "Everything that has not been prohibited is permitted." He was sitting in a prison cell when the 19th party conference took place! And, as we know, Khusnutdinov is not the only one to have suffered such a fate. For example, I.A. Kirtbaya, a sketch of whom was printed in EKO in the department "Portraits of Men of Affairs," has been convicted. At one time, there was a discussion in the journal about socialist enterprise, but we have been unable to protect those people who tried to change reality and to get out of ruts that have been hindering resourceful and talented economic practitioners on all sides. Now the journal is calling for the Law on the Enterprise to be made retroactive and the cases of these people reopened. This is our position as citizens, and we hope that it will find a response.

[EKO] And what has been the reaction to the journal's articles?

[Granberg] One of the most important problems is the effectiveness of the journal's articles. What is the point of our efforts if "the writer writes, the reader reads," and still nothing changes in this connection. But the purpose of the journal's articles is in most cases not to correct a particular outrage or to punish the guilty. Our task is to draw attention to a problem, to shape public opinion. But we would also like to attract more senior officials of ministries and central authorities to make thorough comments on the journal's articles.

A journal must be an organizer of economic life, an active participant in it. We need more than just invigoration of the traditional forms—"the Directors' Club," the "Club of Friends of EKO," readers' conferences, and opinion surveys, but we also need to introduce new forms all the way to commercial undertakings that would bring the journal additional income. The journal can use that income—for example, to commission particular studies on the most acute problems of the present time.

[Aganbegyan] I would like to recall that the journal has advanced and popularized quite a few ideas, for example, about reestablishing an all-union economics society in the country, which ultimately was created, and about creating EKO clubs in various cities. But all of that activity could have been much more extensive. We might have organized Inter-EKO abroad and created associations of business practitioners and directors around EKO.

Every such step carried with it some danger in the years of the stagnation. There were times when the editorial collegium actually discussed the question of what we must undertake so that they do not close the journal down. In Sverdlovsk, for example, the correspondent of one of the central newspapers began to write to the party's Central Committee that the journal had all but created a new organization and set it up in opposition to the party. It took us no small effort to overcome that.

[Granberg] In our more remote plans, there is an EKO series of publications. A great number of readers have asked us to publish information supplements about creating cooperatives and about proposals for them. The country lacks business information as such, and when some of the functions of planning authorities are being transferred downward, an acute shortage of information is being felt, including the kind of information furnished through advertising. In 1988, EKO began to publish advertising for products of subdivisions of the Siberian Branch of the USSR Academy of Sciences.

[EKO] Will there be a change in the journal's format?

[Granberg] The journal will soon make the transition to computer technology, and it will have an up-to-date printing plant. We hope that in time it will become just as beautiful and attractive as, say, the journal ANGLIYA or among our own—SPUTNIK.

At present, we will not make radical changes in the journal's appearance, as some readers have proposed to us. There are many who like the "pocket-size" format. We will also stick with the tradition of illustrating even the most serious articles with humorous cartoons, especially since many readers write that sometimes the artists see the conception of the articles even more profoundly than their authors and from an unexpected point of view.

[Aganbegyan] I think that the journal has every opportunity to keep pace with the times, which are today advancing higher demands, and it will be interesting to our readers. The competition is forcing us to work in a new way. I think that the journal's main purpose is to inculcate new economic thinking and a new economic sophistication. It is not the advancement of some particular technology or particular commodity, we do not intend to impose even good economic know-how. Our purpose is to inculcate in people the economic outlook that they themselves are capable of grasping the new and thinking creatively. I consider the feedback that has been organized an immense achievement of ours. It always irritated me that other economics journals were not interested in who read them and what they thought of them. We support our readership, we survey about 3,000 experts who are friends of the journal, and we want to know more than just who is reading the journal.

[Granberg] I also look to the future with optimism. What has been done, just like what did not get done—these have been a school for the new editorial collegium and for the editors. We will also learn from the reader, we will carefully study his requests and desires. The journal's strategy, the outlines of future changes, are being worked out on that basis. We have a unique readership. It can tell us about very many things and processes it would be difficult to learn about otherwise. After all, the view from the office of a scientist or editor is quite different from that of life itself. We make an appeal to our readers that they take part in the journal's renewal. Your letters and assessments of the issues that come out help us to "keep our hand on the pulse," to learn what topics excite our readership, and what you would like to see in the pages of EKO. We have been trying to take your desires into account, and we hope to expand the group of the journal's potential authors and reviewers.

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Aganbegyan on Social Aspects of Economic Development

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[Article by A. G. Aganbegyan: "On the Conception of Long-Range Socioeconomic Development"]

[Text] The article examines individual directions of economic and social policy that form the basis of a new

conception of national development up to the year 2005 and analyzes the results of the first 3 years of perestroika which are considered in the conception. Qualitative objectives and key quantitative indicators of the new conception are characterized.

The conception of the nation's socioeconomic development up to the year 2005 was explored at a 1988 sitting of the Politburo of the CPSU Central Committee. It was the fruit of quite a large effort that began in April 1987 when the Institute of Economics and Forecasting of Scientific-Technological Progress of the USSR Academy of Sciences prepared the first document on calculations of the rates and proportions of long-range development in the principal social and economic directions. In the name of the Academy of Sciences, it was submitted to USSR Gosplan where it was worked on by a joint group of specialists from Gosplan and the USSR Academy of Sciences. The conception draft, bearing two signatures—the signatures of the chairman of Gosplan and the president of the Academy of Sciences—was then submitted to the USSR Council of Ministers. The conception is presently being revised in accordance with comments of the Politburo of the CPSU Central Committee. When we speak of the conception's fundamental principles, we must note two important points. First, the conception was developed on the basis of directive materials concerning the directions of perestroika in the field of economics that were adopted by the 27th Party Congress, the 19th Party Conference, and a number of plenums of the CPSU Central Committee. Second, the conception takes into account the results of the first 3 years of work in the economic sphere since the advent of perestroika. Let us discuss these two points in greater detail.

As we know, the new, long-range economic strategy, the strategy of acceleration of our country's economic development was advanced at the April (1985) Plenum of the CPSU Central Committee. Acceleration was understood and is still understood not mechanically—in the sense of raising the rate of socioeconomic development—even though this is an important task, but primarily as a transition to the new quality of economic growth. What is the essence of this new quality? First, it is the strengthening of the social orientation of our development; second, it is the conversion of the national economy to the intensive path of development based on the utilization of the advances of modern scientific-technological progress. It also advances the task of reforming economic management.

It is specifically in these three directions—the strengthening of the social orientation of development, the intensification of the economy, and the reform of economic management—that our national economy is being restructured.

At the 27th CPSU Congress, the conception of acceleration of our country's socioeconomic development was further developed and concretized in depth and was included in the new redaction of the Party Program and

the Basic Directions of the Nation's Economic and Social Development in 1986-1990 and the Period up to the Year 2000, thereby acquiring the nature of program documents. The demand to entirely renounce the so-called residual principle of allocation of resources for the social sphere and the demand for the priority development of all branches and spheres associated with the satisfaction became an essential feature of the new social policy. Thus the reference is to serious change in the development of our national economy in the direction of satisfying people's needs.

As already noted, the policy of economic intensification and the policy of increasing effectiveness and of improving product quality on the basis of acceleration of scientific-technological progress are another key direction. In this connection, we must not fail to mention the June (1985) conference at the party's Central Committee that discussed problems of new investment and structural policy. The emphasis was on basically modifying the structure of capital investments, on sharply increasing the share of capital investments used for technical reconstruction and the modernization of productive fixed capital. It was proposed that the norm equipment replacement norm be raised twofold.

New investment and structural policy was focused primarily on civil machine building. The rate of capital investment in that branch was slated to increase fourfold; the norm governing the modernization of machine building's technical base was supposed to rise in like measure.

The same conference set forth the principles of our country's new scientific and technical policy. Not only was there increased emphasis on science in the sense of an increase in the corresponding allocations and resources, but the primary emphasis was on shifting the center of gravity to revolutionary forms of transition to new generations of equipment and to fundamentally new technological systems (instead of the predominantly evolutionary development of scientific and technological progress associated with the improvement of existing equipment and technology as was previously the case).

The third direction of perestroyka is the reform of economic management. Its conception was approved by the June (1987) Plenum of the CPSU Central Committee which adopted the fundamental document "Basic Provisions in the Radical Restructuring of Economic Management." An important role here was to be played by the Law of the USSR on the State Enterprise (Association), the Law on Cooperatives, and the Law on Individual Labor Activity that are basic to the new, whole system of management, and by 11 major decrees of the CPSU Central Committee and the USSR Council of Ministers (July 1987) providing for the restructuring of planning, finances, the credit-banking system, price reform, the transition from material-technical supply to

wholesale trade in raw materials and supplies, the restructuring of branch and territorial management, and a number of other measures.

Management reform started with the conversion of the majority of industrial enterprises, transport enterprises, and other branches to the new conditions of management on 1 January 1988 when the Law of the USSR on the State Enterprise (Association) took effect. The transition was thereby made to the new stage of restructuring of the economy, to the stage of large-scale actions. As we see, the conception of national socioeconomic development up to the year 2005 is the embodiment of the new socioeconomic strategy of the party, the strategy of perestroyka.

At the same time, this conception reflects the experience of the first 3 years of perestroyka. What is the nature of this experience? Let us also examine it in the aspect of the three above-indicated directions.

First of all, it is the social sphere, the solution of problems connected with improving the people's life. Existing data show that for the first time in the last 20 years, capital investments in the social sphere are growing faster than capital investments in the production sphere. The rate of capital investments in the social sphere has doubled and the commissioning of new housing has dramatically accelerated. Between 1960 and 1984, when the residual principal of allocating resources for social needs was operative, the per capita volume of housing construction declined by 30 percent. In the last 3 years, it increased by 15 percent even though we still have not yet attained the level of 1960.

As regards the satisfaction of the population's current needs for material goods that is characterized by the dynamics of retail trade turnover, by the production of consumer goods, by the development of the service sphere, and by the dynamics of real income, there have been no substantial changes in this area as yet. The population's money incomes increased by 10 percent in 2 years (will grow by 9 percent in 1988), which exceeded the increase in retail trade turnover and the production of consumer goods. Therefore the scarcity of consumer goods in the market is increasing.

As the surveys show, most Soviet families have not yet felt the fruits of perestroyka in this area. This is unlike changes in the nonmaterial sphere, in the information sphere, and glasnost—changes that everyone is keenly aware of. Therefore in the next few years and especially in the 13th Five-Year Plan, we will be faced with the major task of securing a spurt in the people's living standard, such a spurt that most Soviet people would feel the real fruits of perestroyka and would become an active part of it.

Let us now see how matters stand with intensification. If we speak about general growth rates, they have slightly surpassed the growth rates in industry and the dynamics

of agriculture have improved slightly. Agriculture in fact has been stagnating since 1978. While its growth rates have increased during 3 years of the current five-year plan, they are entirely insufficient for satisfying the country's food needs. The fact of the matter is that half of this increase has been used to reduce imports. After all, under the 11th Five-Year Plan, we imported 40 tons of grain annually and in individual years 50 million tons. This is more than the output of the Ukraine and Kazakhstan combined. We imported a million tons of meat (more than Moscow consumes) and hundreds of thousands of tons of butter in exchange for oil. World oil prices have now dropped to two-fifths of their previous level and such imports are no longer included among our options. It is also necessary to recall the negative socioeconomic consequences of a situation where such a large country as ours is the only large country in the world that cannot feed itself. We have now reduced our food imports to two-thirds of the previous level. Notwithstanding a certain increase in the volume of agricultural production and the production of foodstuffs, the food supply of the population has improved but little.

The growth rate of produced national income has not risen compared with the past and has even declined slightly. The principal reason for this is the pronounced deterioration of the materials-output ratio.

Now a word about economic growth factors and the way resources have behaved. The growth rates of fixed capital dropped sharply in 1986-1987. There was also a dramatic decline in the number of material production workers. In actuality, their number was stable. At the same time, there was a sharp increase in the volume of productive capital investments and a considerable, almost twofold, acceleration of the increase in the production of fuel and raw materials.

There has been a certain measure of progress in the output-capital ratio in the national economy. It was previously dropped at a faster rate, but is now declining more slowly.

The growth rate of labor productivity in industry, construction, agriculture, and other branches has increased. For the first time in our history, the entire increase in social production in 1987 was the result of the increase in labor productivity. The number of production personnel in industry declined slightly also for the first time in history in 1987. But these positive changes in productivity in individual branches were leveled in the labor productivity indicator for the national economy as a whole, in social labor productivity that is characterized by the growth of national income. And its growth was very insignificant primarily for two reasons: 1. The necessary saving of fuel and raw materials and reduction of metal-intensiveness were not attained. 2. The negative influence of foreign trade indicators made itself known. In recent years there were even negative trends in the resolution of problems of economic effectiveness. The effectiveness of capital investments also began to decline

during the 12th Five-Year Plan. The unduly large growth of capital investments in the productive sphere was not accompanied by the corresponding return. What is more, the volume of incomplete construction even increased in 1987. As we see, the picture is very contradictory. The general conclusion is that we have not as yet made substantial progress in the area of economic intensification.

As regards scientific-technological progress, there has been significant advanced development work here especially with respect to the reconstruction of machine building. While in 1985, 3.1 percent of the obsolete machinery, equipment, and instruments were taken out of production, in 1987 this figure was already 9 percent. In 1990, this modernization norm will be raised to 13 percent for existing equipment. But, of course, this is as yet having little impact on the overall results in the national economy. In order that this have some appreciable impact, we must not only modernize equipment in machine building property, we must also organize the mass production of new machinery with greater effectiveness and begin saturating other branches of the national economy with it. This will, of course, take time, i. e., the effect will be forthcoming in the future.

A new, most complex stage—the stage of large-scale actions—has now begun in the implementation of management reform. But it did not begin successfully. One of the reasons why it did not was that state orders were incorrectly established by central economic organs. Everything was entrusted to the ministries. This also concerns norms governing the formation of the wage fund. As already stated, it was also impossible to make progress in the area of resource conservation because the economic mechanism does not encourage the saving of fuel and raw materials. The USSR Council of Ministers has now adopted a new statute on state orders. Since 1989 ministries have been stripped of the right to establish them. A new conception has also been developed on the establishment of economic norms relating to the formation of the wage fund. But all this requires further concretization. There is need for very serious measures so that the new, gradually developed economic system of management will begin working in the next 3 years. The period of transition to this system has only begun. Enterprises have been converted to the new conditions of management in accordance with the Law on the State Enterprise, but the old system of prices continues to operate, the supply of the means of production is still centralized, and banks are still working in the old way: they have not been converted to economic accountability. Thus, old and new economic forms are combined in the economy. This contradictory situation will continue all the way up to the year 1990. This means that the most important measures associated with management reform are still ahead. They include: price reform in 1989-1990; the transition from the centralized distribution of the means of production to wholesale trade in means of production (it will begin in 1989); bank reform, also

scheduled to begin in 1989 (the establishment of commercial banks; the conversion of banks to economic accountability and a number of other important measures of this type). In any event, we must enter the 13th Five-Year Plan with the new economic mechanism. Such is the task. And the 13th Five-Year Plan will become the first five-year plan in which economic norms are an integral part. It is planned to establish a uniform system of economic norms; to reduce state orders to a minimum; to make them profitable to the enterprises; to give them sufficient self-reliance; to consistently implement full economic accountability, self-financing, and self-management.

Summing up the results, it can be said that we cannot yet be generally satisfied with the course of economic development during the years of perestroika. It has been slower, considerably slower than planned. Why? In our opinion, there are three principal reasons. The first is that the economic hole we fell into during the years of stagnation—a hole that are still trying to climb out of—proved to be far deeper and its walls much steeper; it is infinitely more difficult to extricate ourselves from this hole than we previously thought. This difficulty is expressed in the power of inertia, in the fact that we are still in the grip of the old structure, the old methods, the old thinking. Farms are bound hand and foot by the administrative system. The knots would seem to be easy to untie. But when we tried to untie them, we found that they were much tighter than they initially seemed to be, and that a great deal of time and much more effort was required to do so. In other words, we underestimated the power of inertia.

The second reason is that under these conditions, under the conditions of such powers of inertia and resistance, we should have acted more decisively and we verbally proclaimed the need for radical, revolutionary measures. And many decisions were radical from that point of view but in reality they were only implemented by half-measures. In reality, the new form—the state order—is filled with old, worthless content: planning from the top. In reality, the new form—the economic norm—is filled with old mandatory plan indicators. Economic norms were determined by dividing two mandatory indicators—one into the other. They were individualized by enterprise. Large-scale problems that originated in the past, during the years of stagnation, that hang like fetters, are not addressed. The largest problem in the economy today is that production is divorced from the satisfaction of practical needs. This is an enormous financial imbalance between effective demand and material supply and the imbalance in the sphere of the financial interrelations of enterprises, banks, organizations, and the budget deficit. The budget is getting into debt. Hence hidden inflation, the erosion of the inexpensive product mix, the hidden increase in prices on producer goods and consumer goods at the rate of 3-4 percent a year (some think the rate is even higher). Therefore the above-cited figures and cost assessments require correction if we are to be precise. But it is difficult to make this correction because

statistics do not provide the raw data required for the actual calculation of inflationary processes. It has not yet been restructured but is only in the restructuring process.

The third reason is that in the course of the restructuring, there were quite a large number of errors that were the result of secret decisions. Errors (already mentioned above) in the state order, in the establishment of norms, in the pay system. Errors in the second increase in vodka prices that struck a powerful blow against the state budget and against effective demand in the amount of 10 billion rubles a year, that brought about a sugar shortage, etc. This list could be continued. For example, the large number of unsubstantiated construction projects. Take, if only, the Astrakhan Gas Complex: the enormous ruble and currency investments in the complex. Because it is totally unprepared, there is enormous pollution of the environment. This is also a dangerous venture that entails accidents. But the second phase is being planned with a persistence that is worthy of better application. Enormous resources continue to be invested in it while at the same time currency allocations for the purchase of consumer goods have been curtailed.

There have now been important decisions to surpass five-year plan targets for food, for the production of consumer goods, and for the service sphere. That is, development is proceeding in the right direction. But in our view, more radical and decisive measures are needed.

What is the principal task that is posed for the period up to the year 2000-2005? This task is of course to radically renew our socialist economy and to give it a new quality. Such renewal, if we speak in tangible terms, consists in the following.

First. We must get away from an economy in which the producer dictates, an economy of scarcity because an economy of scarcity cannot be effective, because effectiveness in a socialist economy means the complete satisfaction of needs. If there is scarcity, this means that needs are not being satisfied. It is necessary to proceed from an economy of scarcity to a new economy where production is oriented toward the satisfaction of social needs, where production is based on the customer's needs, where the market is saturated, where there is equilibrium, where there is balance.

The main feature of this scarcity-free, balanced economy is its social orientation. In past years, our economy had a resource-producing orientation. Funds for increasing resources, for the development of production have been allocated on a priority basis. Funds for the social sphere, for social needs, on the other hand, have been allocated according to the residual principle. We must make the transition to a social economy, to an economy for man, where all production is subordinated to the resolution of pressing social problems.

How does it happen that we even live worse than we work (even though we are not working so very well)? This is connected, first, with our difficult history, and, second, with the fact that during the years of stagnation we took a step backward in many social directions. Therefore we have very urgent social problems. We must redistribute resources very significantly, giving priority to the social sphere and must substantially improve the life of the people in a spurt. Therefore the social reorientation of our development is the key question.

Second. In the last 15-20 years, extensive factors, the growth of production resources have accounted for two-thirds of our economy's development (three-fourths in the opinion of some), whereas the share of increased effectiveness in economic growth factors was one-third (or even one-fourth). We must proceed from the extensive economy to an intensive economy (a type of economy that is new to us), to an economy that develops predominantly on the basis of higher effectiveness and quality; the main thing here is the acceleration of scientific-technological progress. We must proceed from sluggish, evolutionary scientific-technological progress to a genuine scientific-technological revolution, to an economy of progressive technological frontiers.

And, finally, we must proceed from an administrative, peremptory economic system to a democratic economy, to a self-managing economy.

Let us now examine certain quantitative indicators for a 15-year period. It is planned to more than double the nation's economic potential. Development in the social sphere will be even more rapid. Real per capita income will grow at the rate of four percent a year. Actual economic growth factors themselves will undergo radical change. Much less growth of production resources, including productive capital, is slated. The production of fuel and raw materials will slow down and the size of the work force in the production sphere will even diminish. But employment in the consumer service sphere will simultaneously increase. The economy's effectiveness will have to double in order to secure the acceleration of development and to compensate the lesser growth of production resources. The principal stake is on effectiveness indicators. It is planned to break the trend toward a declining output-capital ratio, to stabilize the ratio, to increase the effectiveness of utilization of fuel and raw materials dramatically, to practically double the growth rates of labor productivity, and to raise the share of intensive factors to two-thirds.

Three possible variants of future socioeconomic development are examined. They are based on work performed at the USSR Academy of Sciences, in particular, work performed at the Institute of Economics and Forecasting of Scientific-Technical Progress. The socially oriented variant envisages a lesser volume of capital investments in the production sphere and their redistribution in favor of the nonproductive sphere and an increase in the share of consumption in the national

income based on a corresponding reduction of the accumulation fund. It sees higher growth rates of the consumption fund, industry Group 'B,' and real per capital income. And this variant must be basic.

Change in the structure of consumption will reflect substantial growth in the role of durable goods. Special attention will be devoted to such a key question as the housing problem. After all, we have a difficult situation in this area. We build less and worse than anyone in the world, to say nothing about the quality of our housing. As is known, per capita housing area in other developed countries is 35-45 m². Per capita housing area in our country is only 16 m², of which only 10 m² are equipped with modern conveniences. In other developed countries, practically all housing is equipped with modern conveniences and they as yet build more housing per capita than we. Even though we are making progress in this area, this progress is clearly insufficient.

According to official data, 15 percent of all Soviet families (50 million persons) do not have their own housing—a separate apartment or house; they live in communal apartments and in residence halls. We consider it entirely normal that children live in the same apartment as their parents and yet they should have their own separate apartments, naturally assuming that this is what they themselves want. All this indicates a need for more dramatic change in housing construction.

The heaviest blow during the stagnation years was dealt to public health. At the beginning of the sixties, the USSR was one of 15 countries with the healthiest populations in the world and had a low mortality rate. Life expectancy was 70 years. By 1984, life expectancy in the Soviet Union decreased by 2 years; general and infantile mortality rose, i.e., all public health indicators deteriorated. All countries during this time took an enormous leap forward owing to the incorporation of scientific-technical progress in public health and the change in people's attitudes toward their health. During the perestroika years, the public health budget was increased by one-third, pay for public health workers was raised 30 percent, and various other measures were obtained. We have launched an active struggle against alcoholism and have increased life expectancy from 68 to 70 years. This is real progress but we are still lagging compared with other countries—socialist and capitalist—especially with regard to our infant mortality level. The long-term program adopted at the initiative of the CPSU Central Committee for the purpose of improving the population's health and restructuring the public health service is of great significance in this regard.

Now a word about education. We must seriously continue educational reform. The USSR is at a low level in this area among the developed countries. On the average, every worker in our national economy has approximately 10 years of schooling (if we consider all types of education—school, institute, or other educational institution) compared with 14-15 in the USA and Japan.

One of the main problems is that of restoring the economy's financial health. The country approaches 1989 with a very large financial imbalance in three different areas: the imbalance in the consumer goods market, the imbalance of the financial resources of the nation's enterprises and organizations, and the large deficit in the state budget and in the balance of payments. As we know, the USSR has quite a sizable debt in convertible currency. We need a special, large-scale program to eliminate financial imbalance.

Notwithstanding the proclaimed task of embarking on the predominantly intensive path of development, it has not been possible to do this in actual practice as yet. As a result of the lag in resource conservation and in solving the capital investment effectiveness problem, the 12th Five-Year Plan remains a five-year plan of predominantly extensive development.

But the share of intensive factors must be dramatically increased already in the 13th Five-Year Plan; by the end of this plan, it will be raised to three-fourths. In general, the conception's long-term indicators are specifically calculated to secure such an increase in the share of intensive factors of development.

Let us take if only associated with the supply of materials. Thus a very substantial reduction in metal-intensiveness in the USSR—to one-half of the previous level—before the year 2000 is planned. This is the current level of metal-intensiveness in the USA. And the USA is not the leading country for economizing on material resources. It lags substantially behind Sweden, a number of European countries, and Japan. In other words the projected indicator of reduced metal-intensiveness that even strikes us as slightly fantastic will not be the best from the standpoint of Western experience. It should moreover be remembered that, in the opinion of many scientists, our statistical data regarding metal-intensiveness do not correspond to reality. Thus, the Institute of World Economics and International Relations of the USSR Academy of Sciences estimates that our lag behind other countries in metal-intensiveness is much greater than indicated by the official data of USSR Goskomstat [USSR State Committee for Statistics] even though these data show quite a gloomy picture.

It is planned to raise the annual level of metal conservation from two to six percent. But this requires structural change of the economy itself. If, for example, we sharply increase the share of information technology, the production of electronic products, etc., this, by virtue of their low metal-intensiveness, will immediately substantially reduce the overall metal-intensiveness of national income. This factor almost does not exist among us but in the future it must occupy a dominant place.

As regards the output-capital ratio, during the years of stagnation it dropped quite sharply. It has now been possible to slow down this decline somewhat. The next

five-year plan poses the task of stabilizing the output-capital ratio; the 14th Five-Year Plan will begin to raise it. There will also be a 3-4-fold reduction in the investment cycle on the basis of all its phases.

We have also carried out a number of studies. Our experts have also evaluated the degree to which our equipment lags behind the level of foreign equipment. In 1985, the state of affairs in machine building branches was evaluated under the aegis of the Machine Building Bureau. The evaluation shows that 71 percent of the equipment, machinery, and instruments produced by civil machine building does not correspond to modern requirements and must be taken out of production. What is more, many consider this figure to be unduly optimistic. The Institute of Economics and Forecasting of Scientific-Technical Progress of the USSR Academy of Sciences studied in very great detail the state of affairs in this area on the basis of quite a large mix of various types of equipment compared with their foreign counterparts and came to a more pessimistic evaluation. It shows once again that we must dramatically modernize the production of equipment. We reached a 9-percent modernization level in 1987 and will reach a 13-percent modernization level in 1990. The further growth of modernized products is scheduled for the 13th Five-Year Plan. Such are the targets.

In the present article, I have not set myself the goal of analyzing the course of economic management reform and the problems arising in connection with it; I propose to do so somewhat later. But there are certain questions connected in one way or another with the reform that should be discussed. For example, the long-enduring penchant for creating enterprises according to the principle—the bigger, the better, i.e., the so-called gigantomania. It led to bad consequences and is today justly condemned. In the Economics Department of the USSR Academy of Sciences, there is general agreement on this point. In addition to large departments, we defend the need for small and medium-size enterprises, naturally assuming that they have modern equipment, and actively oppose gigantomania.

While the situation in the world economy varies widely from branch to branch, on the whole more and more miniplants are being set up in many branches. Such a name has appeared even in metallurgy, to say nothing of other branches. Small enterprises possess a number of advantages: a more flexible structure; the possibility of tooling up for new production in a short time; the potential for adapting to the customer; the possibility of more complete specialization and (what is very important) the faster assimilation and commissioning of capital investments, etc. In foreign countries, these small enterprises are frequently combined into large companies. The latter in fact consists of various, relatively small enterprises. Many of these companies are gigantic—much larger than any gigantic plant in our country. These companies gradually outgrow national boundaries and become transnational. They usually unite science

and design work under the one roof. But in addition to these gigantic companies, in which there is what we call vertical integration, there is also an enormous number of small and medium-size independent firms. That is, there is pluralism and it is important to the economy. But we have indeed become carried away with gigantomania, especially in certain branches. For example, the pulp production branch, which is highly detrimental to the environment.

The question of the time schedule for modernizing fixed capital, of comparing this schedule with the schedules in developed capitalist countries.

As we know, the modernization norm is usually based on the active part of productive fixed capital, i. e., equipment. In the major developed countries, this norm ranges between 6 and 8 percent a year; in our country, this coefficient was 3.2 percent under the 11th Five-Year Plan. The 12th Five-Year Plan posed the task of raising it to 6.2 percent. We should reach the world average in this regard by the end of the 12th Five-Year Plan and then go beyond it.

The monopolization of individual spheres works to the serious detriment of the functioning of the economy and to socialist development. A monopolistic status is enjoyed, for example, by Inturist, Aeroflot, a number of ministries, and many enterprises and associations that in actuality dictate their terms to the customer. Economic policy calls for resistance to this type of monopolism. On this score there is a corresponding article in the Law of the USSR on the State Enterprise (Association). There has been progress in certain directions: thus, for example, the Ministry of Foreign Trade's monopoly has been eliminated. Ninety percent of the USSR's foreign economic transactions previously passes through this ministry. On 1 July 1988, 66 USSR ministries and departments, 15 union republics, cities (Moscow and Leningrad), and approximately 100 large associations at the right of direct access to the foreign market. They presently account for approximately one-fourth of all exports and this share continues to increase. Recently a decision was made to dramatically increase the number of organizations having direct access to the foreign market.

The question of the monopoly is a key question. In order that the market function properly, there must be competition and monopolies here are very dangerous. As V. I. Lenin said, all monopolies lead to stagnation. Now, too, this phrase is applied not only to capitalist monopolies but to our own monopolies as well. We should therefore create tourist organizations in addition to Inturist and perhaps even divide it into several organizations. While the situation with Aeroflot is probably more complicated, there is the experience of developed capitalist countries that have abolished state aviation companies and divided them into several private companies. Such experience does exist but how it can be applied in our country is another matter. But this is the direction we must be moving in. This question requires further study.

Regional political problems have special significance in the development of the economy and of social relations. Now, as we know, the tendency in a number of regions and some republics is to develop a conception of regional economic accountability. What is more, this is in parallel with the expansion of the republics' rights.

The resolution of the 19th Party Conference contains the premise that republics must be converted to a system of self-financing, self-management, self-supply, and self-government, to principles of regional economic accountability. These questions are now actively discussed primarily by the Baltic republics that have established appropriate commissions to study them. But they are also studied by a number of other organizations. Ural and Siberian departments of the USSR Academy of Sciences are working on problems of regional economic accountability. Such work is also carried on in Moscow. These questions are now in general the focus of attention.

The necessity of creating a new system for forming the budgets of republics and regions is directly connected with the problem of regional economic accountability. The aim is to convert the formation of budgets to a normative basis. But all this must be done in such a way that the interaction of regions with the nation's unified economic complex would continue in the necessary direction, that the various parts of our country would be economically integrated, that there would be complementarity without which there can be no unified economy, no single national economic complex. All this is quite a complex range of problems. We are attentively studying the experience of other countries in this area, especially Yugoslavia, where many difficulties in the economic interrelations of republics have originated in connection with what, from our point of view, might be the granting of economic rights that are too broad. Various kinds of contradictions have intensified between them. It is important that this not be permitted in such a large and complex country such as ours. It is therefore essential to expand the independence of regions and republics, but at the same time to find such a correct economic mechanism that would give initiative to the local level and that would at the same time preserve the preeminence of the unified approach on the basis of all-union interests. Of course it must not be to the detriment of national interests, but must skillfully combine them. It must include the development of progressive processes of economic integration and the strengthening of the single Union.

As can be seen from this brief survey of current problems, economic scholars are confronted by large and practically important tasks. It is our professional duty to resolve them with scientific substantiation.

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Formation of First State Joint Stock Enterprise Draws Attention

Association Director Explains Principle

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[Article by Valentin Mikhaylovich Vologzhin, general director of the production association "Konveyer," Lvov: "The Dawn of Soviet Stock Shares"]

[Text] I will not be revealing any great discovery if I say that the future of an enterprise is the most important task for its management. When we made the transition to self-financing in the context of rates of deductions that had already been set, we attempted to "play out" all the different alternatives of the association's development. In addition to the development of production, we formulated all those programs whose performance would become mandatory for the enterprise over the next 10 years or so since it was provided for in decrees of the party and government. They included providing every family a separate apartment by the year 2000, the program to improve the health of the workers, the rendering of consumer services and other services, adequate food supply, and so on. We moreover tried to tighten all the requirements. By 1995, we would eliminate the waiting line for apartments, we would solve all the problems with worker rest and recreation and medical treatment, we would increase the volume of services 3-4-fold (the per-worker volume of consumer services is now 7.57 rubles), and we would bring the supply of meat and vegetables up to the calculated standard levels. The foundation was laid for doing this: even now we have a swine farm, facilities for raising fish, mushrooms, and bees, hothouses—we have been cooperating with a lagging sovkhos....

Once we had arrived at the final tasks on the basis of all programs, we looked to the financial expenditures that would be required. This was the picture: profit remaining at the disposition of the association over the period 1987-1990—31.3 million rubles; depreciation for full replacement of fixed capital—9.7 million; and the total for economic incentive funds—41 million rubles. But 57 million rubles would be necessary for the full scope of development. To make up the missing 16 million, calculated annual profit had to be increased 40 percent over the period 1987-1990. And since this is no easy matter given the rigid standard rates and production cost, all potential had to be mobilized to solve the problem. What am I referring to?

First of all, we adopted an additional plan for the 5-year planning period calling for a growth of 153 percent instead of 140 percent. The need for our products is very great, so that this decision was supported "from above." Now the plant is operating on three shifts, but we have "found" another 3.6 million rubles thanks to the counterplan.

We are taking maximum advantage of supplements to wholesale prices for the efficiency and quality of operation. Beginning with the 13th FYP, of course, they will be included in prices, but for the present, certification for the Quality Emblem is still in place, and we are making vigorous use of this channel for obtaining additional profit. In 1987, 92.4 percent of products subject to certification were awarded the Quality Emblem, and by 1990 we are aiming at 100 percent thanks to the purchase of a good license, affording an additional 8 million rubles.

Supplements for Delivery of Complete Systems. We do a complete systems design for consumers, we deliver complete machine tools, warehouses, and computers, and we start up the equipment. The consumer, of course, gains from this, since he gladly pays us 5 percent under contract. This brings in 500,000 rubles.

We are actively engaged in selling off retired property and equipment, realizing that it will be very difficult to sell the equipment in 2 or 3 years. We are getting 400,000 rubles from this.

At this point, everyone in the country is learning how to work. So are we. But we are slightly ahead, and so we take advantage of our net positive result for fines—700,000 rubles.

But actually, our long-term effort consistent with fundamental principle is to create a bank through which the association can obtain credit to finance itself on the basis of stockholding. Even during the current 5-year planning period, this will give us 2.6 million rubles. But we will take this up later on.

The Workingman and Funds

When the program was compiled, we simulated the association's development up to the year 2000, anticipating that we would be operating just as stably as now. This revealed things which at first seemed unlikely: none of the three funds that now exist was working, was performing the role of a stimulator of the collective's development.

Fund for Social Development. We do not have any problems with children's kindergartens and day nurseries even now. If we were to fully perform the other programs by 1995—health improvement and the like—the workers would not even remember this fund. After all, there are no problems! By the year 2000, everyone will become accustomed to good living conditions, just as they become accustomed to everything that is good. This fund might be referred to only if something might

be lacking to a grandchild, for example. That is understandable: the higher the level of benefits, the lower the interest of society in the FSR. In that situation, which we will all strive for, it will have an impact only on a small group of supervisory personnel and specialists. That is, up to the year 2000 it is losing its purposive impact.

Production Development Fund. It is having the opposite effect even now. The FRP must be directed toward the development of equipment, production technology, which must inevitably result in the retraining and improvement of the qualifications of workers, the acquisition of fundamentally new occupations, and reduction of the number of job positions. Which is why elderly personnel are afraid of new technology, flexible production systems, and the like. We tell them that the equipment has to be changed, and they reply that they, getting along in years, do not want to work on that equipment. Even now, the fund is having an effect on some of the specialists, but not on the entire collective. The higher the level of technology (and we already have processing equipment which only an engineer can operate), the more acute this contradiction becomes. The problem of universal engineering training will become inevitable in the course of this kind of development.

Material Incentive Fund. We assume that we will achieve a 40-percent growth of profit over the FYP as a whole. But we cannot pay out the entire growth to the association's work force: the growth rate of wages will exceed the growth rate of labor productivity. And in addressing the collective I will congratulate them for the good work they have done, but in this respect we cannot talk about presenting them the reward to which they are entitled. This is undermining the very idea of the new economic mechanism.

That is to say that any stable enterprise that is stepping up its rates of development will inevitably confront this problem by 1995, as we will, or by the year 2000. The funds will cease to have their effect! But after all, the state cannot switch to an economic mechanism that has 8 years to live. It must have a life of 20-25 years at least. It will take 7-8 years just to develop it. We have turned to our own economists in Lvov in seeking a method of resolving this contradiction, but we have received no response.

The idea on which the new economic mechanism is based seems sound to us: collectives are given the opportunity to earn a good income and use what they have earned themselves. But how will this mechanism compel normal operation even in 50 years? We have studied the forms that exist in Hungary. I came back from there with the idea of the joint stock company. We have carefully studied the experience of Yugoslavia and China, and we have found literally everything that the press has published about Japan. I have been in West Germany, and while I was performing my tasks related to production, I studied the organizational structure of firms with joint stock capital and private capital. That led me to the

conclusion that the joint stock company is a form that has many advantages. After that, we undertook to create a socialist mechanism of a joint stock company that would differ essentially from a capitalist company. We believe that we have created it.

The Basic Ideas

One of the ideas of the economic mechanism being set up in the country is this: the better you work, the larger your income, and the more revenue that goes to the state. We adopted this formula as a basis. The idea arose of turning that portion of the FMP which we cannot pay out to the workers into stock that would be sold within the collective, which would become the co-owner of the stock, and the money would be committed to development, as in any other joint stock company. That solves the first little problem: it is as though we would pay out that portion of wages in the form of stock. As though! Since the workers do not receive the money, it takes the material form of machine tools, equipment, and the like. And if the collective gets in a difficult situation, if, let us suppose, its production has a low rate of profit, but it wants to live well? Then there is another version: the workers invest their money and acquire stock for it.

We have merged these two forms. The shares of stock acquired for resources from the different sources differ in color: shares acquired with the resources of the FMP are red, this is money which the collective has earned for you; and shares purchased with personal resources are green.

How the GASP [State Stock Socialist Enterprise] Operates

Membership in the GASP. Those who have worked in the association for at least 3 years may become members of it. The decision on this question is made by the work collective. The length of work service also includes effective service in the armed forces, work in full-time positions in the association's party, Komsomol, and trade union organizations, time spent on assignment of the enterprise in courses for improvement of qualifications or in VUZ's, and so on. The collective can take away the right to become a member of the joint stock company.

The GASP's of Bodies of Management. It was decided in an assembly of the association's work collective that operation would be directed by a council of stockholders (it is just like the council of the work collective) for a term not to exceed 5 years. Two candidates are elected members of the council for the same term to replace those who are absent because of extended illness, business trips, vacations, and so on. The council of stockholders forms an executive committee and an auditing commission.

The auditing commission is elected with at least three members also for a term not to exceed 5 years. It verifies the quarterly reporting of the bookkeeping department and financial department, defending the interests of the GASP's members. The bylaws of the state socialist joint stock enterprise have been drafted and adopted in the council of the work collective.

Bank Service. A branch of USSR Sberbank performing all banking operations has been created in the enterprise. Under a contract, the Lvov Oblast Administration of Sberbank has granted the GASP a long-term credit of 1 million rubles at an interest rate of 3 percent per annum over a term of 5 years. It is being repaid in equal quarterly installments. The Sberbank branch annually receives 15,000 rubles to perform banking operations to serve the members of the GASP. A personal account is kept for each stockholder.

Sources of Deposits. By decision of the founding council of the joint stock enterprise, the maximum amount which a stockholder may use to acquire shares of stock is 5 monthly salaries or 5 months' wages. If a person has been working in the association between 3 and 15 years, he is allowed to purchase up to the amount of 3 months' salary or wages (the maximum), between 15 and 20 years it is 4 months' earnings, and longer than 20 years it is 5 months' salary or wages. Consequently, if you have been working for more than 20 years at a salary of 200 rubles, you can buy 1,000 rubles' worth of stock, 2 months' earnings of which may be through the FMP. The collective places that money in your account because of your 20 years of honorable work at the enterprise. Those 400 rubles are actually a reward for work.

By decision of the work collective of a subdivision, the workers may be granted the right to acquire stock with their own money. Those who have more than 15 years of work service may purchase stock in the amount of earnings from wages or salary for 2 months, and beyond 20 years earnings from 3 months' wages or salary.

The same income is envisaged on these two types of stock.

You can sell stock acquired through the FMP to the bank (and receive money) only when you dissolve your employment contract with the enterprise—you quit, you retire, and so on. This is provisional money posted in your name by the collective because you have been doing good work and are a member of the joint stock company. But shares of stock acquired for your own money you can sell to the bank at any time. This is your own personal and effective money.

Thus, the fundamental features of our joint stock mechanism are that the shares of stock cannot be traded. They are not subject to loss of value, they are not the subject of speculation. And to be a stockholder you must work for us.

Stockholders' Income. We have calculated that if we operate the same as in 1987, we would be able to pay an annual income between 15 and 20 percent of the total amount invested. Why 15-20? The reason is that we held a referendum in the collective to discuss the question: What percentage of income could motivate the collective? The general opinion was this: from 15 percent up; otherwise there is no point in pursuing it. After all, there does remain a certain risk: the enterprise could experience a slump in its operation, and the 3-percent interest paid by the bank is guaranteed by the state. Then we took the remainder of our material incentive fund, in general the entire remainder of income, also including that portion of the FMP which is now unfairly distributed, and assuming a 20-percent dividend we arrived at the amount of stock which we could issue—1.5 million rubles. More stock could, of course, be issued, but then the income would be lower....

But we also made provision to attract reinvestment of that income. Every worker can transfer it to another account in which his income will pay him 5 percent per annum. Suppose that you have annual income from your stock of 200 rubles. Over 5 years that would give you shares of stock worth 1,000 rubles.

Thus, two personal accounts are opened in the Sberbank for every worker: the first to store the funds which the enterprise has transferred from the FMP and also built up with personal deposits. This is the stockholders' account. The second is for the interest paid on the stockholders' accounts. The enterprise's material incentive fund is the source from which this interest is obtained.

You have invested your money—you have done good work—you have earned profit—the bank has put that profit to work—again you have realized a profit—you have invested it.... The mechanism will work regardless of whether there is a director, since every quarter the workingman will want to know: And how much do I have there? The council of the stockholding company will also be keeping an eye out, and if, let us assume, we pay 1 percent instead of 5 percent, they will ask me: And why is business so bad, comrade director? All right, we will wait a year, but if this continues a 2d year.... The collective will not allow this mechanism to stand still too long.

Fund for Internal Credit Financing. The funds realized from the sale of stock and the funds in the workers' accounts constitute the fund for internal credit financing. This is the enterprise's financial reserve. As much as 85 percent of it can be used for development of production and social development, as well as for other purposes in the interests of the workers that do not contradict legislation, while 15 percent is set aside to pay money out from the accounts to members of the GASP who have dissolved their contract with the enterprise.

When we issue stock for 1.5 million rubles, we will have 6-7 million rubles in the fund for internal credit financing. Fixed capital in our association amounts to 55 million rubles; in 7 or 8 years there will be about 60 million. That is, 10 percent of the value of fixed capital will be in circulation. Suppose that the country made the transition to that mechanism, and over a period of 8 years it invested 10 percent of the value of fixed capital! For a country whose financial affairs are not at all as splendid as we became accustomed to assume, this could come in handy. Workers would be able to invest billions of their personal rubles to develop their enterprises! This mechanism is capable of generating a huge movement of financial resources without any capital investments at all and to cement together the interests of the workers, the enterprise, and the state.

Exploration, Problems, and Prospects

We call our association a state socialist joint stock enterprise. We have had many occasions in a wide variety of offices to speak about how the joint stock form is not the property of capitalism, that there are no capitalist or socialist forms of the organization of production at all. The important thing is the content that we invest those forms with, the purposes we pursue. To be sure, people do live on dividends from stock in some places. But we, after all, cannot take money from old ladies and invest it in shares of stock. The shares of stock cannot be purchased on the open market. The number of shares sold to you is determined by your skill category, by the kind of worker you are. Do not strive to be a chief, strive to be a good specialist, qualify for a higher skill category, a higher qualification. The supervisor receives 300 rubles, with supplements you also get 300. In the GASP, you are absolutely equal.

Social justice is also achieved in that a toolmaker in skill category 7 will never be put on a par in the GASP with someone who is less qualified. If you want to realize more profit—qualify for a higher category. The higher the category, the higher your qualification, the better quality and productivity will be.... That is the pattern that develops.

What is more, whatever the size of the redistribution of the FMP, it never becomes direct wages. This is always distributed income which the bank employs to replenish the development fund and the fund for social, cultural, and consumer services. But it has a particularly significant impact toward renewal of the active part of fixed capital. We are motivating the worker to develop that fund, which now is infinitely distant from him. And he is interested in its development, since new machine tools and flexible production systems afford new profit.

Without even wanting to, by earning additional profit, he is working better, he is producing a more competitive product, and he is augmenting the enterprise's funds. By using them, we are improving the worker's working conditions and living conditions; he is becoming healthier, he

is sick less, and he invests "additional" work in the cause. However much the director might like to interfere, the mechanism operates, and every quarter the workers ask: How is profit? What is the rate of return?

We will, of course, refine this mechanism. In what way? By attracting new resources, for example, the so-called 13th monthly wage. At present, its mechanism absolutely "does not work," no one remembers it until December, it is taken for granted. There have been 14th and 15th monthly wages.... All of these things will work for us and will be distributed more fairly.

It is possible that in future our collective will decide to invest the resources of its stockholders to develop another collective or to build enterprises. But the income obtained from that venture will come to us and will be distributed here, in the interests of the workers of our enterprise.

Nor do I exclude, for instance, a situation like this: an enterprise supplying us components is unable to develop additional capacity, but we need something new. Let us suppose that its fixed capital is 50 million, and it needs 2 million to develop additional capacity. We invest those 2 million, we sign a contract whereby in 2 or 3 years we get 4 percent out of their profit (in proportion to what it represents in fixed capital). This is now a more elaborate form of joint stock company. When things are set up that way, there is a greatly enhanced interest in development of other enterprises. No one would go to the ministry or to any other intermediate body except the bank, which would certify that document.

But what room could be opened up for effort if no one hinders this?

Finance Chief Notes Workers' Interest

18200214 Novosibirsk *EKONOMIKA* 1
ORGANIZATSIYA PROMYSHLENNOGO
PROIZVODSTVA in Russian No 1, Jan 89 pp 50-54

[Interview with Galina Viktorovna Novikova, chief of the Finance Department of the association "Konveyer"; "Something Is Nevertheless Changing...."; date and place not given]

[Text]

[EKO] Galina Viktorovna, you agreed to the creation of GASP on various occasions long before publication of the decree of the USSR Council of Ministers. Earlier, this could have continued for decades, but has something changed in connection with restructuring?

[Novikova] Yes, in any case that is the road we have traveled in 1.5 years. I first learned from the director that we would be setting up a joint stock company in 1986. Having been trained in the old traditions, I did not understand at first how this could be done at all in our

country. But then I became absorbed, I read a great deal, I discussed the problems with Valentin Mikhaylovich. This is an interesting, new, and unusual effort. And I soon became completely involved in it.

I understood at once the financial gains that creation of the GASP would bring. The bank grants the long-term credit only on the basis of a calculation of the economic benefit. But what calculation of benefit can be made in the case of an apartment house? That is, it can, of course, be done, but it would all be fakery. I received such calculations myself when I worked in Gosbank.... Is it not simpler to take your money and commit it where the collective deems necessary and to attract the resources of the workers? They told us: What for, when you are already sitting on a bag of money?! True, with a retooling plan costing 1 million rubles, we were doing projects in the amount of 3 million, mainly financed with supplements for efficiency and quality. But as a finance person I understand that this is a temporary phenomenon, that source will disappear in 2 or 3 years, and failure to think about the future financial prosperity of the enterprise means condemning it to vegetation. To be sure, Gosbank and Minfin say that there is a shortage of credit resources in the country, but we can feel the pinch with which credits are granted!

The first idea was to set up a stockholding mechanism within the production entity. But that is a temporary solution for the short run, and that means that it would not become part of the overall economic mechanism. That is why we decided to go through the labyrinth of consents, but to do it all legally—through Sberbank and Minfin as the legislator of the circulation of securities.

Incidentally, the first reaction of outside organizations to the proposal to set up the GASP is interesting: shares of stock—that is not our way! The very words seemed alien. Then the workers of "Konveyer" found a regulation under which shares of stock had officially existed in our country from 1927 to 1961. They were abolished only in 1962. Our argument to the comrade on whom the decision depended was that in and of themselves shares of stock belong neither to socialism nor capitalism. Then the discussion revolved around the joint stock company. We argued long and hard that this is only a form of economic organization, that there is no division into capitalist or socialist forms, that everything will depend on the content they are filled with.

You know, we were very lucky with the people involved. The count of supporters began with A.A. Kolesnikov, chairman of the republic office of USSR Sberbank. He understood the idea immediately and supported it. He was also backed up by his deputy V.N. Yarmak, who in his time spent 8 years paving the way for the idea of credit transfers, which now has been adopted throughout the entire country. Support came from the Lvov Oblast Party Committee. The press mentioned it, and the USSR Council of Ministers asked to be supplied with material on the joint stock company. In December 1987, we went

to USSR Sberbank. Its chairman A.N. Burkov said that he was on our side and had issued an order to the chiefs of several administrations and legal experts to join with us in putting the final touches on the regulation so that it did not contradict the Law on the State Enterprise (Association), the Regulation on the Work Collective, or the Sberbank Charter.

We worked for about a month, and then we concluded the contract with the Lvov branch of the Savings Bank, where again our idea was very well received by its chief A.I. Ribay. Incidentally, it was in the bank that they suggested to us the idea of quarterly computation of the interest on the shareholders' capital, so that people would see what they had earned and so that the profitability of the joint stock company would be more obvious to the workers, which Minfin was against.

Then the issue arose of printing the shares. That required a permit from USSR Goskom and then in turn a permit was required from Minfin: stocks are securities.

I must tell you that if we had begun with Minfin, then nothing would have come of our GASP. Although V.K. Senchagov, the new deputy minister, was in favor of our idea, the strong opposition of staff personnel could be felt. Vyacheslav Konstantinovich questioned me thoroughly for several days and finally signed the documents. We were cordially received in Goskomizdat, where in half a day we were able to settle the question of printing the shares of stock. For that, we are grateful to D.F. Mamleyev, the committee's deputy chairman.

As you see, something is nevertheless changing....

[EKO] As a finance person, have you felt that the association's workers are interested in a joint stock company?

[Novikova] Of course, the vanguard of the collective understood and accepted us at once. There were some doubters. But people came and they said: Would you calculate how much income I will have? And now our business is going fairly well. We paid our stockholders a return of 17 percent for the 1st quarter of 1987. At this point, shares have been sold to the association's workers in the amount of 1.018 million rubles (900,000 from the FMP and 281,000 personal investments).

[EKO] And what will be the worker's return on his average wage if the association should operate in stable fashion?

[Novikova] The average wage at the plant is 239 rubles, the total balance is 2 monthly salaries from the FMP plus one salary from personal savings. Shares can be purchased in the amount of 750 rubles. At a return of 18 percent, that would be 135 rubles for the year. If it is not withdrawn, then for the next year the interest rate set by the collective will be computed on the 750 rubles of stock plus the 135 rubles in the interest account. Let us

suppose that the man has 10 years to work before he retires. At the end of those 10 years, he will have 1,350 rubles in the interest account. All of which came from 750 rubles of stock. At the time of retirement, the worker would receive 2,100 rubles. Earlier, we did not insure pensions, but now it is possible to obtain insurance, and that is a help as well.

[EKO] And do you recommend that others adopt your experience?

[Novikova] We are thinking of selling organizational materials on creation of the GASP. Perhaps some people will not hear about us. After all, what has been our usual way? The ministry summarizes someone's experience and sends out free material for practical application. But little value is placed on what is free. So the material on what may be a unique experience lies around without being called for and perhaps not even opened. But we will be selling it to those who are interested in it, those who are ready to follow our example. Especially to those who already have a good idea how many lumps you can get pushing this idea. I personally can say with full confidence that it is more advantageous to buy the development from us than to spend on it perhaps even just 1.5 years, but time that would be taken away from the principal work.

The cost of the development package has been set at about 3,000 rubles. In arriving at the estimate, we used the method adopted in the scientific research institute, but we took only the net costs, without the additions, as is done in science, for office supplies, overhead, and so on. What was our point of departure? Calculations of costs at the Exhibition of Economic Achievements. In 1988, we exhibited the state socialist joint stock enterprise there. After all, any exhibit at the exhibition may be sold, and in our case the exhibit was the GASP. It is in fact in order to cover the costs incurred at the exhibition that we will be selling the material we have worked up on the GASP.

[EKO] Now that you have mentioned science. Did you collaborate with science in developing the GASP?

[Novikova] We would have no objection, and we even concluded a contract with the Economics Institute of the Western affiliate of the Ukrainian Academy of Sciences in Lvov. But they will tackle only those topics that have been included in their plan. And we want cooperation that keeps up with things, when an idea crops up, we work on it. That is why we have been collaborating in a very worthwhile way with the Chernopol Finance and Economics Institute. They respond more quickly to all of our requests.

[EKO] Galina Viktorovna, what if the enterprise does not work as well as anticipated, if it is unable to pay dividends on the shares of stock? Who will do it? The state?

[Novikova] Not in any case! If the results of operation are bad, and people want to drop out of the joint stock

enterprise, then we will have to sell something in order to settle accounts with them. We, not the state! The shares of stock are securities of the PO "Konveyer," it is we who issue the guarantees to the workers, not the state. But I hope that that will not happen. Moreover, I think that organization of a GASP is an effective way for any enterprise to achieve profitability.

Underdevelopment of Securities Market Noted
*18200214 Novosibirsk EKONOMIKA I
ORGANIZATSIYA PROMYSHLENNOGO
PROIZVODSTVA in Russian No 1, Jan 89 pp 61-64*

[Interview with Vyacheslav Konstantinovich Senchagov, USSR deputy finance minister, by EKO correspondents Yu. Voronov and L. Shcherbakova: "We Have Work To Do"; date and place not given]

[Text]

[EKO] Vyacheslav Konstantinovich, how do you evaluate the experience of "Konveyer"?

[Senchagov] The most important thing is that the joint stock company has existed in our country not only at the level of ideas, but also in real fact. What do I see as the value of the experience of the "Konveyer" GASP? Several basic principles can be singled out. The understanding of the principles of cost accounting (*khozyaystvennyy raschet*), both its first and second forms, will be deepened. A socialist mechanism will be created for personifying the use of socialist property. The point is that even in those forms of cost accounting which are now taking shape profit does not come down to the individual worker as a criterion of efficiency, as the main vessel of self-financing, and for social development. I think that shares of stock can bring the demands of cost accounting right to the individual. Perhaps that is the most important thing today. It is such an immediate task, it is clear, and it is feasible.

But that is not the only importance of setting up joint stock enterprises in the country. A more complicated task in the future is to create a securities market, which is something we will inevitably come to as stock becomes widespread.

The initiative of the people in Lvov is worthwhile not only from the standpoint of the enterprise, but also from the standpoint of the entire economy, the state as a whole. Right now, the population has immense savings. They already exceed 270 billion rubles. We do, of course, have certain mechanisms for attracting those resources to solve long-term problems. But they are not closely related to the activity of the individual enterprise, and the benefit from them is insufficient. Even now, savings are being used not only for credit financing, but also in certain cases to finance one-time investments. The idea of "Konveyer" broadens the framework for productive

accumulation at the level of enterprises. In essence, there will be a transfer of funds (on a lawful basis) from the sphere of savings into the sphere of building the production potential.

[EKO] What is called capitalization....

[Senchagov] Yes, that term is quite apt and compatible with all our methodologies for measuring efficiency, discounting, and so on. Today, our assets have not been capitalized. They are alienated along two lines: when we look at productive assets themselves and when we look at resources for current financing (financial and capital investments, new technology, the formation of personal income, development of the social infrastructure). We need close integration of both those assets that represent the material and technical base of production and also assets obtained on the basis of current results of economic activity.

[EKO] But on the whole, the dividend must be variable, and the total amount of stock must correspond to assets. Financial people, then, have to give some thought to ways of bringing the total amount of stock into conformity with the assets that exist at the enterprise....

[Senchagov] The term "give some thought" is not suitable. This is still an objective process. At the present moment, its defect is that we do not have an organized and planned market for means of production, commodities, and services that is developing dynamically and with appropriate relations. But we have to try to discover the relation between the standard rate of efficiency and the rate of interest on credit, which even science has not worked out definitively. Yet this must play a decisive role in correct evaluation of assets. The rate of interest on loans is itself related to the size of the loan fund and the effectiveness of its use. Though this is more a task for the future rather than the present day. But it is important to pose these problems today, to investigate them, to try to arrive at practical solutions, without postponing them for a long period of time. Here again, "Konveyer" is out in front.

[EKO] And how would you encourage experiments with a variable dividend to be paid on shares of stock?

[Senchagov] First of all, we must decide what limit will be put on the payment of interest on shares of stock and who will set that limit? What factors does its establishment depend on? This rate of interest still is not among the functions of the individual enterprise, although, of course, it does depend on the effectiveness of its economic activity. It is related to formation of the entire loan fund. I think that the limit should be outlined by state authorities—Minfin or Gosbank—at the level of the national economy. Deviations are possible within the framework of that limit.

There is apprehension here because it is very difficult to regulate the process of the movement of all investments. For example, the stock of one enterprise will pay 15

percent, and that of another 6 percent. Personnel will begin to migrate. This will continue until the optimum rate of that interest is found all on its own.

[EKO] But if "Konveyer" earns its 15 percent?

[Senchagov] The ideology of the discount rate has to be applied, and there may be fluctuation around that level.

[EKO] Before a securities market is created, a market structure probably has to be organized that would fix the discount rate and set conditions: Your business is not going very well this year, the discount rate is such-and-such, the fluctuation such-and-such. That is in the tradition of the Russian economy. Is that what you have in mind?

[Senchagov] Yes. But I am not thinking of a discount rate of 12-15 percent. The rate of interest still expresses the general efficiency of production and average profitability. And the level of the interest paid on shares of stock expresses another category that is close to the value of money as a factor of production. The price of money as capital, though even in distorted form, does nevertheless exist. You will never get away from that. That is why we can say that at present there is a mechanism of truncated shares of stock in operation and that it will develop. It is important to represent the dialectics of its further development.

[EKO] Do you feel that those conditions stipulated in the draft prepared by Minfin will attract broad strata of the public into joint stock forms? We are referring to the very large original investment (300-500 rubles).

[Senchagov] That is still the road to follow. The material base of this process also looks to those money savings which still have not been attracted into circulation. One can realistically take from individuals those resources which they have not been depositing in savings banks, regarding them as cash necessary for current consumption. But under certain conditions, people are willing to invest it in an enterprise's development. This question, of course, has to be discussed in work collectives, coercive mechanisms have to be removed, and those which stimulate initiative have to be strengthened. Although under the conditions in which we find ourselves at present (the absence of a market for means of production, the absence of wholesale prices that take into account the relation between supply and demand and the proportions of world prices, and the large size of the state order), good conditions have not been brought about for development of stockholding forms.

[EKO] Vyacheslav Konstantinovich, quite recently we spoke with clear condemnation of the merger of bank capital and industrial capital in the capitalist countries. And now, joint stock companies are making it possible for us to follow that same road.

[Senchagov] That stereotype has already been superseded. A new understanding of the functions of the state

and the individual enterprise is now taking shape. We are departing from the conception of the economy as an economy socialized by the state....

[EKO] Totally socialized....

[Senchagov] I would say all-inclusively socialized. As we overcome totalitarianism, we are at the same time beginning to develop a new model of the functioning of the economy. The essence of it is that our enterprises are independent and operate on full cost accounting. The banks, including USSR Gosbank, the central bank issuing notes, the bank of banks, are more flexible. The network of commercial banks is also operating on full cost accounting and self-financing. Commercial banks are enterprises, but they deal with money, with its placement, and its accumulation. They will perform their functions on a qualitatively different basis than the previous banks. Here again, it seems to me, space is opening up to solve the problems of the merger of which you speak. And again, limits have to be set, and I have noticed that you do not like that. After all, everything in the economy is expressed in quantitative terms. And unless a quantitative expression is found for that merger, unless its forms are defined, then its mechanism will not be able to develop. To be sure, the banks in turn will be able to enter the sphere of production of consumer goods, the system of invention, but not the extraction of petroleum or gas.

I would say in conclusion that I would not want a draft of our minister that has not yet been completed to be taken as the criterion of truth in organizing joint stock companies. We are on the way to exploring the truth. But even "Konveyer" does not come up to that draft with respect to certain parameters. For instance, they figured the number of monthly wage earnings for which one could acquire stock, two types of investments, the source of one of them in my view fictitious, formed as a result of a certain relationship between the rise of labor productivity and the growth of wages. This is a hypothetical counting of hypothetical money. So, just like us, they also have something to work on!

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Shatalin on Economic Modeling, New Approach to Ownership

18200169 Moscow *EKONOMICHSKIYE NAUKI*
in Russian No 1, Jan 89 pp 51-57

[Interview with Stanislav Sergeyevich Shatalin by source: "The Restructuring of Economic Theory: How Do Matters Stand Today? What Is to Be Done Tomorrow?"; date and place not given; first paragraph is source introduction]

[Text] The urgency of the problem brought out in the headline can scarcely be doubted. Below we acquaint readers with the content of our conversation with Academician Stanislav Sergeyevich Shatalin.

[Question] To what extent, in your opinion, has work in the area of economic theory and, above all, political economy been restructured? How is this restructuring being manifested? How is it being felt in the national economy, in research institutions, in the teaching of economic disciplines?

[Shatalin] It is difficult for me to answer this question completely, especially that part that touches on the teaching of political economy. I do not teach this course myself and I cannot at all imagine how it is being taught right now. I can proceed only from certain general considerations. And from these standpoints, to speak frankly (and only as is necessary), I do not see that economic theory and, primarily, political economy have actually been restructured. True, a definite appearance of restructuring is being created: new vocabularies and new smoke screens have appeared, yet in essence things remain the same. But if there is no actual restructuring in economic theory, what can be changed seriously in teaching? So, I presume, restructuring still lies ahead.

[Question] And how do you assess the new textbook on political economy that was published in our journal?

[Shatalin] The textbook, which is intended, it must be supposed, for those who are not specialists in economics, has some improvements, but I think it touches on all the details without changing the gist of the course. It is important to know how to approach this textbook. If one sees in it a sort of declaration for perestroika, even in some degree its first stage, the task can, in great measure, be considered solved. But if one tries to view it as the sum of perestroika, or at least as supplying its fundamental shift, the assessment should, from my point of view, be different. The book does not express perestroika (and, what is more, it cannot do this for the reason that I have already talked about, in answering the preceding question), without having revealed even the radical advance toward it. I have not been able to find in the textbook signs of a "breakthrough" in the area of political economy. In describing the situation this way, it is very important to emphasize: the author's collective is not guilty here, it is the fault (more precisely, the misfortune) of the overall level of development of economic science. You do not leapfrog yourself. And I want to make one more stipulation: I strive to "protect" the authors, not at all because of the fear of offending someone. In brief, it is not this but the fact that one must not camouflage the main thing—the true state of the science, which clearly is unsatisfactory—by making a complaint against a scientist or a group of scientists. It is precisely this that must be corrected, and, if we actually solve this problem, authors who know how to point out intelligently the actual results achieved will surely be found.

[Question] What you have said apparently leads to the following question: will you not name the most important tasks of perestroika that must be solved in the area

of economic science—the tasks that are most immediate and those that are not so immediate?

[Shatalin] It would seem that the main direction of perestroika in the area of economic science is clear enough: it should be to use mathematical-economics modeling widely enough. Of course, one should not imagine that modeling is a panacea for all our ills. But as long as mathematical-economics models are not used in economic theory and, in particular, in political economy, we are doomed to mark time. To express it loosely, no one can construct a verbal substantiation of such problems and, likewise—by means of a collection of words—a “solution” of them. This is the main direction. But there are also, of course, other directions for perestroika that do not demand mathematical-economics modeling. I consider a serious review of the nature of socialist ownership, especially state ownership, which we have become completely accustomed to equating with national ownership, to be the main direction. Today it is far from being a secret that state ownership in its present form does not stimulate scientific and technical progress, acceleration of economic growth, effective use of resources, or increase in the people's well-being. Much has been said and written conclusively about all this recently. I shall not try to repeat it. It is necessary only to establish that all these are real facts that exist, like all other facts, independently, regardless of whether they are pleasant to us or not. From this comes an insistent need for the deepest and most comprehensive research about the extent to which the whole institution of socialist ownership, primarily state ownership, should be reformed, in evolutionary fashion or radically.

Some things are already being discovered here, these being not so much the theory's contributions as the course itself of living practice: it is extremely important to use more intensively leasing and economically accountable forms with a view to transforming workers employed in the various branches of industry or at some enterprise or other, into actual, not alleged proprietors. It is also becoming clear that many principles of the cooperative form of ownership can be applied to state ownership. I will note, however: not in the form in which it is formulated right now. In my belief, the cooperative ownership currently being formed anew often is the clearest economic robbery, and, because of this, it stands to reason that it is completely impossible to solve those problems which it is planned to solve by means of this ownership. I think it is possible, nevertheless, to reform state ownership with what has been written in the law on cooperation (recently adopted). A kind of integration of state, cooperative and individual ownership that has been transformed in revolutionary fashion can support forward movement. As long as revolutionary transformations are not executed, any economic reforms will come to grief. Possibly some will call this approach a repudiation of gains (they say, transformation of state ownership into group formations of some kind will occur). It would seem that they are saying that it is in

vain if, of course, it is a question of genuinely socialist gains and not gains proclaimed without real grounds.

If an attempt is made to speak in somewhat greater detail, we must create primarily a mechanism for motivating effective resource utilization that would be at least no poorer than the one now existing in the West. The importance of economic science's constructive proposals for creating such a failure-free operating mechanism can hardly be overestimated.

It is precisely these two problems—the introduction of mathematical-economics modeling and the language of mathematics into economic theory and a radical reform of socialist ownership, and also, on the basis thereof, reform of the economic mechanism for the functioning of socialist economics—that are to me most important for restructuring economic science.

[Question] If development of the theory should, in the final analysis, serve practice, I would like to find out under what conditions, in your opinion, can radical economic reform in our country be fully accomplished?

[Shatalin] First of all, this reform must be grasped more deeply and, in particular, as I have said, it must use the theory of cooperative ownership. Without a revolution in the institution of socialist ownership, including all its elements, the economic reform will not go far at all. One must not forget the sad result of the attempt to execute the 1965 economic reform. Indeed it also was conceived as an important expansion of the independence of the economy's primary elements, and it presupposed an optimal combining of centralized control with relative economic independence of the enterprises, that is, it highlighted the very same painful points that exist right now. But they proved to be insurmountable, and they burdened the economy for a long time with stagnation. Today the economic reform really presupposes, first, revolutionary reform of ownership and, second, earnest political support of the measures that are to be executed. Full-fledged economic reform will occur to the extent to which society not only realizes this (and there is serious, positive testimony on this count, as is well known) but also puts it into practice.

[Question] Let us try again to return to the “purely” scientific problems. What, from your point of view, mainly is required to solve the practical tasks—in regards to research, methodology and organization?

[Shatalin] It is a fairly complicated question, although it has been formulated very simply. For a starter, I shall say that it is already partially apparent and that I have answered it. I add that one must not take consolation in illusions on the grounds that changes in scientific approaches that are small and not of a radical nature will suffice. In order to make radical changes, primarily a rise in the professionalism of those who busy themselves with economic theory, particularly in political economy,

is required. Unfortunately, this situation has been complicated: mathematical economists and political economists and the major portion of practical economists speak basically different languages. As a result, a dialogue of the deaf occurs—one cannot hear the other. I graduated from the economics department of Moscow State University imeni M. V. Lomonosov, then I studied mathematics, and right now I consider myself to be a mathematical economist, and I can say that it is extraordinarily difficult for me to rub shoulders with “descriptive” economists and “descriptive” political economists. It is extraordinarily complicated to see to it that economists speak the same language or at least understand each other well. The whole lifetime of at least one generation of scientists will be needed in order to solve this problem. But this is a strategic task, and there is no place to hide.

Risking a lapse into officiousness, I still say: the economists’ professionalism must be increased, based on the development of mathematical-economics modeling. Economic research needs a new language, a new approach, and right now there is none better than that of mathematical-economics modeling. This approach is extremely important also because it helps extremely greatly in promoting the solution of such a radical problem of economic science as its emancipation, freeing it from becoming rigid in dogmas, wherein all “scientific searching” reduces down to tracking down and combining citations for all of life’s events. It can be noted with great satisfaction that right now many economists who previously were, as a minimum, extraordinarily reserved or, more precisely, most likely inflexibly conservative, have become bolder, and have felt the winds of change and the political support of economic science’s reform. Today’s economists are much better prepared for their part than before to grasp the new.

But even the new itself, and even its adoption, cannot appear without a genuine growth in professionalism. And here, among other things, it is not at all a sin to use the West’s experience, to learn something from Western economists, to whom we have become accustomed to addressing only on the subject of exposures, which at times are depressingly primitive. The realities are such that much that has already been done in economics in the West is completely applicable also to socialism’s economic conditions. This concerns both production effectiveness and the optimality of using production resources, and many other problems. However, it is impossible not only to creatively grasp all this or even simply to note it, if one proceeds from the fact that Western economics science is a continuous “class attack on socialism,” “a servant of imperialism,” and so on. If the facts are studied, it becomes clear that serious, very often extremely progressive people, engage in the science of economics in the West, people who, in addition, also promote the goals of rapprochement of our countries with Western countries. Only by using world experience in the development of economic science, only by realistically joining in it, can we more quickly achieve appreciable progress. And here it is not justified to count on

sudden coups. Time also is required here, and there is nothing to be gained from crash-work “perestroika” or from dashing from the thoughtless casting aside of everything created by economic science in bourgeois states to just as thoughtless copying of its principles and then to transforming them into a new source of quotations that save everything. It is necessary to reexamine earnestly, step by step, many problems of political economy and economic theory, and to study, without forgetting of course, our own experience and our social institutions. With such an approach, I think, it will be possible to substantiate realistically economic decisions necessary for the national economy.

An example of a positive contact of Soviet and Western economic science could be to consider the proposals of the prominent American economist V. Leontyev, who recently visited our country. In addition to the methodological assistance he offered, in frequent conversations he expressed a readiness to help our country to obtain credits in the West. And not only he thinks so. Many prominent American and West European economists are ready to get into contact with us, are ready to help to influence their governments for the purpose of extending us certain credit assistance. But if this occurs, it is extraordinarily important to see to it that the resources obtained be used really effectively.

I am a proponent of some “injection” into our economy of Western credits, but under one condition: that we simultaneously will really execute a radical economic reform. One must not “eat away” the credits obtained. It must be done in such a way that new technologies will be developed on the basis of them, and the newest equipment will be acquired for developing the consumer sector of the economy. This does not exclude the partial use of credits to compensate for the purchase of commodities. The question of credits and their use, of course, is very important, and it must be considered comprehensively and carefully, without being afraid to resort also to the help of Western economists.

[Question] Right now, probably as never before, the spectrum of opinions on various questions both of economic theory and the practice of updating our economy has been wide. But are they all really urgent? The impression is being created that among them there are also questions that in essence are being debated only “through inertia” or by virtue of misunderstanding—let us say, because of a failure to understand the opponents’ position or even various interpretations of the very same terms.

[Shatalin] As for the spectrum of opinions mentioned above, it actually is rather wide, and I completely agree with those who take an approving attitude toward such a situation. But this also is true: debates often are not founded on a real difference of opinion but feed on the lack of professionalism of many economists. Apparently, they often try to conceal an inability to make meaningful recommendations on matters of economic theory and

practice in the updating of our economics with far-fetched clashes of "concepts" that are just as far-fetched. It is gratifying that economists no longer dispute in earnest, or hardly dispute, a number of such questions that bothered us 20 years ago. Let us recall the central place that disputes between the "commodity forces" and the "anticommodity forces" occupied. Life, it seems, has bled white these disputes that transpired so hotly. Right now there is scarcely anyone who will seriously deny that a normal socialist market with an exchange, with the handling of securities, with stocks and bonds, in brief, with all the attributes of a modern market, is needed. I do not think that assurances that such a market is borrowed from the West could enjoy success right now. But then, why not borrow from the West thousand-year old methods for developing the economy that have been thought out and tested? There is no harm in this, but undoubted benefit. In brief, the "battle" of the "commodity forces" with the "noncommodity forces" is a matter of the past, and it seems to me that your journal would gain if it would stop returning to it again and again: no increase in scientific knowledge is obtained at these "poles." It is another matter if this topic is approached from the standpoints of the history of economic thought. It must be studied, of course, the more so that yawning abysses have been formed here.

I will name still another area of sluggish (in my view) polemical skirmishes—the problem of preferential growth of subdivision 1 of social production. It is my conviction that life has already indicated that such growth is not an objective economic law. If one argues otherwise, it turns out that this law is realized in modern conditions of development mainly through impracticality, and this is for sure not unimportant. The experience of world economic development (including, it stands to reason, socialist development) testifies to the fact that the most varied relationships between subdivisions 1 and 2 of social production can take shape as a function of the purposes of economic development, of social goals, of resource limitations, and of the type of NTP [scientific and technical progress]. And we must proceed from this, without wasting efforts on endless discussions.

If possible, I would like to return to the conversation about the main problems which we are to solve. It is my fault, but I did not speak in this connection about distributive relationships in our economy, about the distribution of income among workers. More specifically, it is a matter of pay (about pay for work), public funds for consumption, and income from individual work activity. Of course, not all problems are solved by improved distribution. But it is indubitably clear that right now we have in this field very many deficiencies. It is tiresome to speak about wage-leveling. In the last four years we have constantly and with ardor spoken about the fact that it is necessary to pay in accordance with final results, for actual labor. But no appreciable advances are visible in this direction. And it is not a matter here of someone's evil will (although there is such) or carelessness (which also exists, of course). The

basis is still the fact that former economic mechanisms were based on extensive sources of development and demands were always being made for additional labor for their functioning, and that also means additional resources. And this at a time when underutilization of the work force within the enterprise was gigantic, and so it is in essence that we created concealed unemployment. In regard to the hiring of workers, therefore, a peculiar monopolistic effect prevailed: demand almost everywhere considerably exceeded supply. As a result, the worker began to exert a monopolistic influence on determination of the measure of work and the measure of consumption, which, in the final analysis, remade the wage into one of the forms of social guarantee that was not in a position to actively carry out the economic functions of stimulation of technical progress and increase in resource-utilization effectiveness, that is, of its objectively intended functions.

Many problems have also piled up in regard to public consumption funds. Among them are both the departmental aspects of utilization and the very uneven distribution thereof by region of the country. It is clear that this also restrains economic progress.

Now I will try to turn to still another important aspect. Its essence does not provoke any doubts: the economy cannot withdraw into itself, it must be organically combined with the social sphere, with social factors, and also with the ecology. Only with this approach can we hope for a comprehensive solution of the pivotal problems of our socio-economic development. I emphasize that right now we have already spoken not simply about economic but also about socio-economic development. And this is not simply a tribute to the fashion, but a recognition of reality. Social and economic development are mutually related and they strongly influence each other. Both the successes and the failures in one area affects the other. Therefore, I would like that readers not get the impression that, from the number of the most important problems of theory and practice, I exclude the social orientation of our economy and the reciprocal effect of the effective solution of social problems on the utilization effectiveness of production resources in the economic sphere proper.

[Question] But the problems of distribution do not come down just to personal consumption. In particular, can it be considered that the principle of our distribution of income among enterprises is favorable enough?

[Shatalin] Of course, besides distribution in the narrow sense of the work, that is, distribution of the populace's income, about which I spoke, there exists also distribution in a much wider sense of the word, when it is a question already of the income of enterprises, associations, workers' collectives, and so on. Actually, in order that we may have normally developing production, it is necessary to think very seriously also about the distribution of income that is created at enterprises. It is clear that our ancient and extremely vicious practice wherein

some enterprises, usually leading ones, collect income and transfer it to weak enterprises has outlived itself. For the strong this practice placed serious limitations on development, and it deprived the weak to a great extent of stimuli for increasing the effectiveness of their activity. Experienced directors of such enterprises knew well that in the final analysis the kind-hearted ministry would not abandon them in misfortune and during the year would allocate additional resources and "cancel" the results of poor work, and everything would be arranged completely well, including the awarding of bonuses. Right now the ministry's role is being changed; they should stop being organs that interfere in the economic life of associations and enterprises but should play the role of staffs for scientific and technical progress. But it seems to me that the practical execution of such designs do not have great chances for success. I am a proponent of eliminating the production-branch ministries entirely, since this would eliminate decisively one of the main real obstacles in the path of scientific, technical and economic progress.

If we will convert to self-financing and full economic accountability and if we will create a realistic mechanism for distributing income from the standpoint of economic effectiveness, a more healthy economy will be formed that is oriented to increasing the pace and quality of economic growth by making more complete use of resources. But I want to note once again that, given the whole importance of the problem of distributing income among enterprises (and associations), the priority today still should be given to income distribution in the consumer sector of our economy. Until there is a proper procedure here, no kind of measure for improving distribution as a whole will yield the desired results.

The provisioning of a balanced state in the consumption sector of our economy is of the most urgent importance. Until such a balancing is achieved, the shortage will fall out through the cracks. One of the consequences of this situation includes social illnesses, particularly the spread of corruption. The shortage in the consumer market is harmful both economically and politically, and it strikes strongly throughout the social sphere, in both the workers' expectations and the interests of the effective development of production.

[Question] At one time disputes around the SOFE [System for Optimal Functioning of the Economy] went on in extremely animated fashion; more often than not it was openly repudiated as diverging from the bases of Marxist-Leninist political economy. In recent years economists' positions have changed importantly. Have you retained your former notions about SOFE and do you see new prospects for this concept in theory and practice?

[Shatalin] This question puts me in an extremely difficult position. I do not want to appear immodest, but I have no place to hide from the fact that I was one of the creators of the SOFE concept, that is, of a system for

optimal functioning of the economy. So that is why I cannot undertake the mission of disinterested arbiter in "the SOFE affair." It is true, there was a time when this concept was called anti-Marxist and they pasted on it every label of depravity. From my point of view, SOFE is not a separate science but a definite method for knowing the laws of economic development. I continue to consider that this is that method and, at the same time, that area of research that is capable right now of strongly moving our economy forward. In particular, I have repeatedly come out for transformation of national-economic optimality, and the principle of the optimum into the base, the core of socialism's political economy. And right now, in the perestroika era, I am even more convinced of this. I regret that in a recent textbook on political economy this science still is greatly isolated from the ideas of the SOFE concept. As I have considered and do consider, all economic relationships of socialism, the basic economic law, distribution according to work, commodity production, prices, standards, effectiveness, and other categories can be understood only where we have a real system for optimal functioning of the economy and for making more effective use of productive resources. SOFE assumes that the subjects of political economy are not simply objective production relationships (this relates especially to socialism), an examination of which outside conscious social control makes little sense. I think that the subject of political economy includes also the principles of choice of the best solutions, evaluation of the utilization effectiveness of production resources, and attempts to create an optimal structure thereof and optimal use of it. Perhaps the fact that this approach has a definite similarity to the approach adopted in the West, particularly the widely known Samuelson textbook, is frightening. But such a similarity in and of itself is, nevertheless, very far from complete, and it is not, in my view, a crime, especially if one considers the fact, which is not without interest, that the Samuelson textbook has already gone through 13 editions—a circumstance that is by no means frequent, you will agree.

If we had said more emphatically that political economy examines not simply production relationships but also problems of rational and effective management, and if the principle of optimality had permeated the study of political economy and all its aspects, then it would have developed more effectively. I think that a new textbook on political economy that is oriented to economists should use SOFE principles extremely widely.

For the sake of correctness I should say that by no means am I ready to subscribe to everything that I said about SOFE 20 years ago. Time has taught me much in this regard. It has saved me in particular from my former fascinations, when the use of SOFE and mathematical methods in economics were seen as a guarantee of SOFE's successes. Declarations of this sort were made on the basis of inadequately substantiated models, partly those which did not embody realistic economic information, were poor in terms of the initial data, and did not

incorporate very many important processes. Therefore, I have not retained my former notions about SOFE. But having included in this concept many relationships, including the relationships of ownership, distributive relationships and others, it seems to me that we could, based upon development of the theory, make a major contribution to the progress of economic science as a whole. In speaking about the prospects for developing SOFE, it is necessary that it consider also new achievements in the area of mathematical-economics modeling and successes in the development of all Soviet economic science. If we had managed to "install" SOFE in all spheres of our economic science, we would have obtained very much better reciprocal influence of the one on the other. From one point of view, the development of political economy could help the development of SOFE, and from another SOFE could have helped the economists to be much more modern.

[Question] In continuing the line that has marked our conversation, which is connected with the fact that you have been engaged in problems of mathematical-economics methods, I would like to ask: are there right now some new realistic possibilities opening up for those methods right now? If so, what do they consist of and what should be done in order to realize them?

[Shatalin] When we previously examined mathematical-economics methods as a panacea for all our troubles, as the key to the solution of all problems, this was not just the "children's illness" that is often talked about but was to a definite extent a natural reaction to the state of economic theory and of political economy in particular. Strivings to oppose somehow reduction of the science to a collection of verbal stereotypes, the devising of laws whose existence is not proved by anything except for wordy assurances or, at best, tendentiously selected illustrations, could not help but arise. Mathematical-economics methods undoubtedly have matured now. In the first place, they have been improved on the basis of new information, taking into consideration all the numerous real factors of social and economic development. It can now be said: each of the areas of use of mathematical-economics methods both in macromodeling and in the modeling of various economic processes—rates of economic growth, living standards, and the development of various branches of the economy and of individual enterprises—has become more mature, and meatier. Therefore, there are also realistic possibilities for moving ahead on the basis of SOFE, integrating the research.

Taking wide development of the socialist market into account, we could use mathematical-economics methods primarily in centralized planning for the development of strategic directions for socio-economic progress and of strategic directions for NTP and for the natural effect on the market of skillful and precise regulation of it. Not only do we not have, but even in the west there is not and there cannot be, a market in which the state does not get involved in one way or another. Markets everywhere are

regulated, although in varying degrees in various countries. But in order that this regulating will be done in a civilized manner (let us recall Lenin's desire to have "civilized cooperators"), and not with the "help of an ax," actual market processes must be considered, and mathematical-economics modeling for which there is, it seems to me, a rich future, is the most important help here. It is especially important for long-term planning. Both we and the West have proved that the market cannot solve problems of long-range planning, problems of the construction of special facilities for the production and nonproduction infrastructure, and it is completely unsuitable also for solving problems of NTP strategy. I will note further that, in speaking about modeling, I have in mind not simply some patterns such as a system of certain mathematical equations but a mature, thought-out tool which even our country has already had 30 years of experience in developing.

I see one of the contributions of SOFE in the fact that it has given our economics a logical, methodological base for the construction of prices, proceeding from the fact that the prices of products and resources should reflect their contribution to increase in the national-economic criteria for optimality. Since all the successive concepts of SOFE proceeded from the fact that such a criterion is growth of the people's welfare, in theory this situation will occur: the price of a resource is its contribution to growth of the national welfare. Theoretically you do not think up pictures that are more beautiful. Of course, in order for SOFE to realistically exert an influence on the market and on price-setting, it is still necessary to consider many of those factors that are still not considered by this concept. But SOFE and mathematical-economics modeling as a whole undoubtedly will give the direction for the inclusion of these factors in price-setting. And this is very important. Especially in order to start the movement of market prices in the directions we want. That is why proponents of the SOFE concept also have posed the question about payment for resources. Such payment for land also is needed, for it is much more appreciable than what exists today.

All this flows from the principles of the optimal functioning of economics. And it has flowed out other than verbally. Models of the optimum use of resources have shown that all resources, including the nonreproducible, given by nature, should have a price. This is opposed to the position of our "classical" political economy: since the resources are natural, that means no labor is spent on them; and since nothing has been expended, that means that they do not have a cost. And if there is no cost, then even a price is irrational: what is there to talk about at all? Given all the seeming theoretical orderliness of such a position, it is practically sterile and, moreover, harmful, and consequently it is not really Marxist. It is generally known that K. Marx himself revealed how the price of land is determined and he worked with this price, although it is difficult to suspect it in the absence of a devotion to Marxism. Of course, for Karl Marx it was a matter of the presocialist commodity activity. But

how is it proved that the approach of the Marxes cannot be applied to the socialist commodity activity? There is no way, it is explained simply. Unfortunately, a similar "scientific method", as I have already said, has been very deeply rooted in our political economy. As for SOFE, everything is treated simply here: when a task for maximal achievement of welfare in an era of a limitation of resources, including natural resources, is solved, the approach should be the same as in a natural-science discipline: all resources, including the nonreproducible, get an assessment. But then, I want to emphasize once more: I am not in opposition to the political economy of SOFE but am for its enrichment, for the creative development of our economic theory, and for the discarding of blinders and dogmas. Never since the departure of V. I. Lenin have political and intellectual conditions been so favorable for such development. Is it pardonable not to make use of them?

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Stabilizing Ruble Through Money-Commodity Balance, Not Currency Reform

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[Article: "A Stable Ruble for the Economic Reform"]

[Text] The existing imbalance in the money and commodity mass is a problem that concerns all of us, our potential of acquiring the goods we need and of realizing our incomes. This is also a serious economic problem connected with national economic proportions and inflationary processes. A ruble that is not backed by commodities reduces the effectiveness of economic stimuli and economic methods of management.

EKONOMICHESKAYA GAZETA together with the editors of DENG I KREDIT conducted a Business Meeting that discussed ways of strengthening the purchasing power of the Soviet ruble and of filling it with commodity content. What is uppermost here? How should the solution of this problem be addressed? What depends on the work collectives themselves and what requires the improvement of planning practice and price formation? And finally what will be the role of the local Soviets in saturating the markets with consumer goods under the new conditions of management.

A. Khandruyev (doctor of economic sciences; deputy director, Credit-Finance Scientific Research Institute of Banks):

The strengthening of the stability of the Soviet ruble is necessary for the successful restructuring of the economic mechanism. Economic methods of management will otherwise be unable to show their power and influence the economics interests of the participants in production. What do we consider to be the main reasons for the alarming phenomena that are currently taking place

in monetary circulation and that are expressed in the excess of the money mass over the commodity mass, in the high degree of the population's unsatisfied demand, and the increase in the prices on consumer goods that are frequently declining in quality?

The stability of the monetary unit is always determined by the state of the national economy. And in order to secure stable monetary circulation, it is first of all necessary to strengthen the economy. The most important thing now is to block the influx of surplus means of payment into monetary circulation. We must form a stable anticost economic mechanism, secure progressive structural changes in the economy, and learn to live within our means in accordance with the principles of full cost accounting.

The historically existing structure of the national economy in our country, in which the share of branches that produce consumer goods is very high, is a key factor behind inflationary processes. Means of production account for over 75 percent of the social product. Up to now, attempts to secure the accelerated development of consumer goods production have been unsuccessful. Only last year and this year did the growth of industry Group 'B' surpass the growth of Group 'A'. Thus in 9 months of 1988, consumer goods production increased by 5.4 percent while the production of producer goods rose by 3.9 percent. But the problem of increasing consumer goods production remains very acute.

The insufficiency of commodity stocks to match the population's growing money incomes is one of the main reasons behind the inflationary processes.

Hence the task of effecting real changes in structural policy, of overcoming priorities that formed in the past regarding the direction of capital investments, material-technical supply, and the remuneration of labor is advanced to the forefront. Suffice it to say that in 1970 Group 'B' received 5.3 percent of all investments in industry, which was absolutely insufficient even then; in 1986 it received 4.1 percent.

The paradox of our economic life is that the scarcity of resources and goods goes hand in hand with the immobilization of colossal material goods in construction in progress, in production inventories, and in the circulation sphere. Annual capital investments in 1987 totaled 205.4 billion rubles; capital in construction in progress totaled about 160 billion rubles. Wages have been paid for these projects but they are not producing anything. Inventories [*zapasy tovarno-materialnykh tsennostey*], behind which there are once again wages that have been paid out, reached the 470 billion ruble mark in 1987.

Question from the audience:

How do you view inflation under socialism?

A. Khandruyev: Inflationary processes are possible in any society where real commodity-monetary relations exist and where the circulation of money is based on paper money. Everything depends on the degree of economic regulation of these processes, on the extent that society is able to keep them under control.

Yu. Dmitriyev (chief editor, DENG I KREDIT):

I would like to add a comment concerning the analysis of the causes of inflationary processes. There are two more serious factors that influence the oversaturation of money circulation with cash. The first is the outright padding of performance figures, which still comprises large sums in the national economy. Second, we cannot but take into account the spoilage of produce for both objective and subjective reasons. The report by Yu. D. Maslyukov at the eleventh session, eleventh convocation of the USSR Supreme Soviet noted that less than a third of all vegetables and fruits grown reach the consumer. All this influences the money-commodity balance.

L. Krasavina (department head, Moscow Finance Institute):

Violations of the money circulation law are primarily due to violations in the reproduction process. I also agree with A. Khandruyev that a surplus of money compared with the real needs of economic circulation reflects disproportions between accumulation and consumption, between the production of producer goods and consumer goods, between the effective demand of the population and the supply of goods.

Therefore the money circulation normalization program must embrace a whole complex of measures starting with the production sphere and ending with the circulation sphere. One of the principal causes of the existing situation in money circulation is the cost-is-no-object nature of the old economic mechanism which will have to be altered in the course of the radical economic reform. Enterprises were not accustomed to counting the state's money and were interested in increasing the cost volume of production and in raising prices. This is why the conversion of the enterprise to full cost accounting and self-financing and the creation of an anticost economic mechanism that compels us to strictly count the money earned by the collective are so important.

We must bring order to capital investments, reduce production in progress to the normative level, put an end to protracted construction projects *dolgostroy*, and put uninstalled equipment (the inventory of which increased by 2.9 percent throughout the national economy as a whole in 1988 and totaled 14.2 billion rubles) to work.

In order to reduce surpluses of money in circulation, we should eliminate unnecessary inventories in the economy by reducing them to the minimum level. Enterprises in other countries usually have inventories only for several days.

We must increase the effectiveness of discount sales to eliminate inventories of unsalable goods. Advertising and repeated price reductions are not being used sufficiently to this end. We obviously lack initiative at the local level. In 1987, for example, only 63 percent of the unsalable nonfood products were sold.

A deficit-free budget is a most important prerequisite to strengthening the ruble. As is known, 1989 budget expenditures were planned to exceed budget revenues by 34.98 billion rubles. The eleventh session, eleventh convocation of the USSR Supreme Soviet noted that enterprise losses totaled 11 billion rubles. Twenty-four thousand enterprises in various branches are operating with losses. Tighter controls over the expenditure of budget funds will have to be established. The reform of the procedure for making payments to the budget must serve the aim of balancing expenditures and revenues. And the payment of money from the budget must not substantially exceed the sale of goods since this undermines the commodity backing of the ruble. Here much will depend on improvements in the practice of levying turnover tax.

The reform in the credit and banking sphere has not as yet had an appreciable impact on the state of money circulation. We must at last define in economic terms the boundaries of the loans that are granted based on the banks' actual loanable funds. Consumer credit must be expanded within sensible limits. After all, as the experience of other countries shows, too much consumer credit can stimulate the inflationary process. Consumption can be expanded only if there is corresponding growth of the supply of goods and services. Of course, prices must be more actively regulated with to supply and demand. After all, prices should not remain static for a long period of time. The price mechanism must be flexible. We should not rigidly fix prices but should raise and lower them; at present, however, they are only rising.

We must more actively introduce noncash transactions not in words but in actual fact. I will cite you one figure: in the USA only one percent of all payments are made in cash.

Voice from the audience:

There are proposals to carry out a monetary reform that will supposedly put money circulation in order. What is your opinion of this question?

L. Krasavina:

We lack the social base for monetary reform. Why? Throughout the world, people usually resort to monetary reform after wars and social upheavals. What kind of social upheavals do we have? The economy is emerging from a period of stagnation. Positive trends are growing stronger.

Yu. Dmitriyev:

What do you think of the idea of eliminating the surplus money mass from circulation by means of so-called real money, i. e., money obtained from the sale of consumer goods or services to the population? In the opinion of the authors of this conception, this "live" money gradually drives "dead" money out of the production of producer goods, out of capital construction, etc.

L. Krasavina:

Money is all the same. The cash and noncash circulation of money is the same. You cannot divide it: this part of the money mass is bad and devalued and this part is real. You cannot single out some one part of the money mass and call it real money. This is economically incorrect. We must strengthen the commodity backing of the ruble rather than think up new kinds of money.

Question from the audience:

Many factors that make it possible to stabilize money circulation have been named. But how can the development of the cooperative movement be evaluated from the standpoint of its influence on the stability of the ruble?

L. Krasavina:

The development of the cooperative movement has a dialectical impact on the circulation of money. It is dialectical because this influence is positive on the one hand. Of course, cooperative goods and services draw off part of the money mass, while on the other hand there are redistributive processes; they are inevitable. But it would be incorrect to exaggerate the role of cooperatives in satisfying the demand for certain goods.

A. Khandruev:

The assessment of the cooperative movement is not uniform. It is true that cooperatives increase the production of goods. But they frequently enjoy more favorable conditions than state enterprises with respect to payments to the budget and the remuneration of labor. Cooperatives literally "skim the cream" from price increases under conditions of scarcity. They also benefit from unsatisfied demand and the inexplicable delays in the introduction of flexible progressive taxation. The activity of the state sector continues to be entangled in various bureaucratic restrictions. As expected, state enterprises cannot give cooperatives the necessary competition. The cooperatives' superincomes are the tribute the population pays for the ineffective economic mechanism.

T. Paramonova (deputy chief, Money Circulation Administration, USSR Gosbank):

For the strengthening of the circulation of money, it is important that the incomes received by the population in

the form of pay be specifically earned, that they be commensurate with the end results of production, that labor productivity grow at a faster rate than the average wage.

It is frequently the case, however, that enterprises in industry and construction pay out money that has not been earned. The result is that the average wage grows faster than labor productivity. This situation is less frequently encountered at enterprises operating according to the second model of full cost accounting. The circulation of money increases the unprofitability of a number of enterprises, the production of unprofitable products, and unproductive expenditures and losses which amount to 24 billion rubles a year in the national economy as a whole. Many enterprises have formulated programs for reducing their losses. The time has come for them to carry them out.

The councils of ministers of union republics and ispolkoms [executive committees] of local Soviets bear full responsibility for the state of circulation of money, for the balance of the money incomes and expenditures of the population in their respective area. Cash plans are approved by republic, kray, oblast, city, and rayon. The task of balancing the population's money incomes and expenditures primarily by increasing the production of consumer goods, by developing paid services, and by improving the organization of trade has become central for these administrative organs. The participation of all enterprises and organizations in their resolution must be enlisted irrespective of their departmental affiliation.

Work collectives can also make a significant contribution to strengthening the circulation of money. After all, they take part in the formulation of the enterprises' one- and five-year plans. These plans must also be scrutinized from the consumer's point of view to see what a given enterprise is offering the consumer market. Everyone must be aware of the complexity of the situation and must find every reserve for increasing the production of goods and for developing paid services.

By organizing credit relations with enterprises, banks promote the expansion of production, the improvement of the quality of consumer goods and services, and the development of cooperative forms of activity. Enterprises that actively address these problems receive credit on a priority basis.

Voice from the audience:

The correlation between the growth of labor productivity and pay is the subject of numerous protests. Many believe that this correlation is economically unfounded, that it prevents the establishment of effective material incentives for the improvement of the workers' performance. With the conversion of state enterprises to the second model of cost accounting, the regulation of the growth rate of pay by the growth rate of labor productivity does not make it possible to use earned money for the remuneration. This places the enterprise in unequal

conditions with cooperatives. What is your point of view on this question? After all, the observance of this correlation is monitored by the bank.

T. Paramonova:

It is the normative correlation, which is defined as the ratio of increase in average pay to the growth of labor productivity, that ensures the dependence of the pay of enterprise workers on labor productivity. The higher the labor productivity, the higher should be their pay. This correlation restrains the growth of wages only at enterprises where labor productivity declines compared with the attained level, where unearned wages and undeserved bonuses are paid out.

On a national scale, such a correlation is necessary; labor productivity must grow at a faster rate than wages. It cannot be considered normal, for example, that during 9 months in 1988, the increase in average pay for every percent of increase in labor productivity in industry in the Belorussian SSR was 1.40 percent; in the Estonian SSR—1.65; Moldavian SSR—1.75; and in the Kazakh SSR—2.12 percent. During 9 months in 1988, labor productivity in industry rose by 5 percent while the average monthly pay of blue- and white-collar workers rose by 6.7 percent. I believe that under these conditions, banks must on a strict quarterly basis monitor the observance of the established correlations between the growth rates of average pay and labor productivity.

Yu. Dmitriyev:

It occasionally happens that an enterprise performs well, fulfills its production and sales plans, does not violate its contractual relations, has money in its current, but when it comes to the bank is unable to get the payroll funds it requires.

T. Paramonova:

This is a very serious question. Many people get the impression that the bank alone is to blame when payday is late. But the main thing here is how the sale of produced goods and performed services secures the flow of money to bank institutions. As I have already noted, local Soviets bear full responsibility for the state of monetary circulation in the given area. Practice shows that the shortage of cash needed in order to make payroll funds available to enterprises on schedule is the result of the imbalance of the population's money incomes and expenditures in a city or rayon specifically due to non-fulfillment of trade turnover plans, consumer goods production plans, plans for rendering paid services to the population, and a number of other factors. Local organs can and should ascertain the specific reasons for the nonfulfillment of plans, for disproportions, and should take the necessary measures.

Banks view instances where banks having funds in their current accounts are unable to obtain payroll funds as

extraordinary. They do everything in their power to see to it that work collectives receive their pay on schedule.

N. Nikitenko (manager, Leninskoye Division of Zhilsotsbank, Moscow):

Even though the cash plan is territorial, only the bank essentially still struggles for its fulfillment. As in past years, we draw up measures pertaining to the fulfillment of the cash plan that are carried over from quarter to quarter. In my opinion, one of the reasons for this is that in any rayon there are many enterprises that are not subordinate to the rayon ispolkom. What kind of decision can the ispolkom make, for example, for the director of the "Krasnaya Roza" Combine, which is subordinate to the ministry of light industry? Only decisions that are in the nature of recommendations. If such an enterprise does not fulfill certain plan indicators, the bank merely informs the ispolkom of this fact, but is powerless to change anything itself. Indeed, the ispolkom is also powerless in this case.

O. Volkov (first deputy chairman, Leninskiy Rayispolkom, Moscow):

The problem of filling the ruble with commodity content, of making the ruble full-valued must be addressed at the national level. I am certain that it is beyond the ability of each individual region to secure the stability of the ruble.

At the same time, every region, be it a republic, an oblast, or a rayon, must also make its contribution to securing the commodity backing of the ruble. And here a great deal depends on the position of the Soviet organs, on their ability to effectively organize the activity of enterprises and organizations in the production of consumer goods and the performance of consumer services.

For example, there are light industry and heavy industry enterprises in our Leninskiy Rayon. We do our utmost to see to it that all these enterprises produce consumer goods. We accordingly support the creation of cooperatives under the auspices of these enterprises for this purpose. More than 30 cooperatives have already been created in the rayon.

We try to take the enterprises' potential for producing consumer goods and performing consumer services into account. Together with enterprises and organizations, we formulate the appropriate plans and monitor their fulfillment. I thoroughly agree with N. Nikitenko that the ispolkom essentially has not economic levers for bringing pressure to bear on the enterprises and organizations. Let us take our rayon. Situated within it are two major light industry enterprises: the "Krasnaya Roza" Factory and the Combine im. Ya. M. Sverdlov. If it becomes necessary to correct production plans, these enterprises appeal directly to their ministry. Here, too, there is little the ispolkom can change. I believe that the ispolkom,

and not only the ministry, should have the appropriate levers for bringing pressure to bear on enterprises within its region.

But what if consumer goods producing enterprises fail to fulfill their plans? The ispolkom can exert only administrative pressure on them: talk with the enterprise's leadership, summon the director to a sitting of the ispolkom, appeal to a higher-level organization. This despite the fact that the region suffers economically as a result: the production plan and hence the profit plan are not fulfilled. This means smaller payments to the budget, including the local budget.

I think that an economic lever could take the form of our entitlement to collect a planned sum from the profits of the enterprise to be paid to the local budget independent of its fulfillment of plan targets.

V. Gurov (general director, "Bolshevichka" Factory):

In the press, on radio and television, light industry workers are often blamed for the "erosion of the inexpensive mix" and for hidden price rises. But for some reason, sight is lost of the fact that this is forced upon us. For example, our enterprise pays almost 81 percent of its profits to the state budget and to the ministry's centralized funds. The branch has enterprises that pay 90 percent of their profits. This situation forces us to increase the production of products with the index "N" which are sold for temporary prices and high-fashion goods that are sold for contract prices. The profits that are obtained from the sale of these products have their own special distribution system. As a result, we pay about two million rubles into the economic incentive funds on the basis of usual norms and pay three or so times more from profits on items with the index "N" and on high-fashion products.

I as a director am very concerned about funds in the current account and the stability of the enterprise's financial condition. And if we are presently money-hungry, we will put it this way, it is primarily for shoring up our finances, securing the conditions for the enterprise's development, and improving the situation in the social sphere. There are 3500 persons working in the association and we have not solved many of our social problems.

We are often accused of sitting on a sack full of money. A larger part of our earnings, as you have seen, go to the budget. The balance in the economic incentive funds is about 13 million rubles. However all this money is in circulation. When that happy moment arrives and we are indeed "sitting on a sack full of money," we will immediately find ways of disposing of it. And I think that we will do this more rationally, in a truly proprietary fashion, and in an economically more advantageous way than the state budget. We will decide for ourselves what we will finance: childcare institutions, a boarding facility

for children without parents or some enterprise lagging in consumer goods production.

I agree with what A. Khandruev said about cooperatives. The conditions in which state enterprises and cooperatives are placed are of course not equal. One of the cooperatives posted a job announcement at the "Bolshevichka" entrance paying 400 rubles for easy sewing work. We are unable to pay our [female] workers 400 rubles even though their skill level is higher than that of workers in cooperatives and their productivity in mass production is high. I know one sewing cooperative that pays its workers up to 900 rubles a month.

What is the danger here? It is not that cooperative workers's earnings are high but the fact that labor resources are transferred from a more efficient to a less sufficient sphere. After all, earnings in cooperatives are high not because labor in the cooperatives is more intensive or because they use material resources more rationally, but because they enjoy incomparably more favorable economic conditions than state enterprises especially as regards tax policy.

I would also like to explore the reason why enterprises converting to the second form of cost accounting do not fare well. The first form of cost accounting is more protected against the vicissitudes of economic conditions.

Under the second form of cost accounting, pay is the result of management, of profits derived from sales. Our profits, however, depend on the kind of raw materials we were authorized to receive. If we are given imported synthetic materials, for example, we produce highly profitable items and our profits are high. If we are not given synthetics, our profit picture is entirely different. But the normative deductions from our profits are stable for the entire five-year plan even though everyone admits that they are incorrect.

Or there is the following question. We now have the obligation to use 100 percent of our capacities for the state order and delivery contracts. But we are not guaranteed a stable supply of raw materials and transport. Under these conditions, we have to pay fines for any disruption. The enterprise is therefore not interested in adopting intensive plans.

In my view, the practice of planning all 100 percent of capacity should be discontinued and the performance of enterprises should be evaluated on the basis of their output rather than on plan fulfillment.

N. Nikitenko:

It is not the enterprises themselves but the conditions under which they work that are to blame for the erosion of the inexpensive product mix. It must be added that

the enterprises must modernize their technical production base—something that they did not concern themselves with sufficiently in the past—at an accelerated pace. This also forces them to raise prices in order to amass the necessary resources. Thus, the consumer is paying for past economic sins.

N. Lakhtin (director, "Krasnaya Roza" Combine):

The main task today is to produce more good consumer goods. Then the ruble will have the necessary commodity backing and prices will remain stable.

Our combine is producing 236 million rubles' worth of several kinds of textiles in retail prices. Our operating conditions have changed in large measure following our conversion to full cost accounting. In previous years, for example, we fulfilled our profit plan by only 70 percent and we frequently had difficulty paying our suppliers' bills. The picture has now changed. We have succeeded in stabilizing our financial condition and we are confidently fulfilling our production, sales, and profits plans. We have liquidated our above-plan inventories. We are now permitted to conclude contracts with our economic partners at wholesale trade fairs. This year, the combine's deliveries for contract prices increased ninefold compared with the corresponding period last year. The prices on our products have remained practically the same. Incidentally, the retail prices on our combine's products have been stable for a number of years. For example, the average retail price on our textiles produced was 4 rubles 13 kopecks in 1985 and 4 rubles 9 kopecks in 1988. The production of goods bearing the index "N" increased 1.58-fold during 10 months of the current year compared with the corresponding period last year.

I would like to discuss the following question. We also transfer our textiles to a wholesaler that is our only customer and this wholesaler has approximately 600 customers. Trade receives considerable wholesale price discounts. At the present time, we are in principle prepared to create a small complex or association of Moscow light industry enterprises that would assume responsibility for everything: the production of textiles, the manufacture of sewn goods from them, and the sale of goods through factory outlets. Cost-accounting income will naturally be higher. Such an association may include, for example, an enterprise that produces thread; a combine that produces textiles; an association that produces high-quality, fashionable items; a factory outlet; and a center for the study of demand.

What are our relations with the bank that serves us? In my view, the potential of credit is still not used sufficiently to expand the production of consumer goods. Despite the creation of new banks, there have been no significant changes in credit relations with the bank; the bank has not yet become our business partner. Perhaps this is because the most important thing for enterprises is not money—we have the appropriate monetary funds—but material assets, that we would like to acquire with this money, and

services. For example, we are still unable to find the contractor we need to erect a new building.

N. Nikitenko:

The traditional understanding of the role of the credit institution in a socialist economy is changing today and new forms of credit transactions are developing, especially as regards the credit mechanism for the aggregate of material inventories and production costs. All this is directed toward securing conditions for the development of economic management techniques, cost accounting, self-financing, and the expansion of consumer goods and services.

The new procedure for granting credit makes it possible for the bank to take the existing situation into account and to maneuver the planned amount of credit. For example, the Combine im. Ya. M. Sverdlov was given permission to sell some of its products abroad at a discount. This required batching the products into sets and storing them in warehouses. Resources were required to build up an inventory. The enterprise explored these questions together with the bank and the planned amount of credit was increased for the period of time required for batching the textiles. The financial situation of the combine and of "Krasnaya Roza" has now stabilized. It was specifically with the aid of credit that economic maneuvering became possible.

Voice from the audience:

Is it then your view that the new credit mechanism will be instrumental in increasing consumer goods production?

N. Nikitenko:

Yes, compared with the previous procedure, the granting credit for the aggregate of material costs and production inventory is a big step forward. All that needs to be done is to determine more precisely the way in which the bank should treat the temporarily uncommitted resources in enterprise economic incentive funds in calculating planned credit. At the present time, these funds are not considered in any of the bank's credit contracts with enterprises and as a result somewhat more credit is extended to enterprises than they should receive.

The bank should pay interest to enterprises on funds in the enterprises' current accounts. But in general the specific banking institution is not interested in this because it does not use these resources directly. As long as bank resources are centrally distributed, we have practically no incentive to attract available funds to enterprise accounts.

Yu. Dmitriyev:

Credit's potential to stimulate the production of consumer goods is still not used sufficiently. I agree with N.

Lakhtin that one of the reasons for this is the considerable amount of money in circulation at enterprises and in associations that cannot be spent on goods in the face of the shortages. In such a case, the significance of value regulators in the economy, including credit, is diminished. Short-term credit investments in 10 months of the current year declined by 6.1 percent throughout the national economy as a whole, including a 7.7 percent decline in branches of light industry. At the same time, credit investments in the sewing industry declined by 3.8 percent; in the knitted goods industry—by 9.1 percent; and in the footwear industry—by 15.8 percent. Credit investments in trade declined by 7.2 percent.

Of course given the level of credit in the economy, this process must only be welcomed. However it also makes us think about the diminishing effectiveness of credit levers in the management of the economy.

I think that cooperatives are making the most active use of credit at the present time. It is not by chance that the short-term indebtedness of cooperatives to the bank in the form of consumer goods production loans increased 4.9-fold during this same period.

S. Shevyakova (chief economist; deputy director of GUM for economics):

In my opinion, trade today finds itself in the most difficult conditions. Why? Primarily because trade organizations were converted to the principles of full cost accounting and self-financing before industrial enterprises were converted to these principles. We believe that we were too hasty here because trade is the last link in the entire chain from the production of goods to their sale. We are at the forefront in relations with consumers and therefore most keenly feel the shortcomings in the work of both our branch and of light industry.

While the new economic mechanism envisages a high degree of independence in the activity of trade organizations, trade does not have the basic right: the right to buy goods from industry without restrictions. Thus the transition to the new conditions of management has been largely formal. Purchases are still based on strictly allocated *fondy* [authorizations to purchase a certain quantity of goods].

Trade is frequently rebuked for not sufficiently studying consumer demand. But this is unjust. We do a great deal to study consumer demand but our orders for consumer goods are only filled by 70 percent and at the beginning of wholesale trade fairs, even by 50-60 percent. The remainder of the order is purchased in the course of the year.

In my opinion, industry enjoys more favorable conditions than trade. Thus of late a number of industrial enterprises reduced their delivery plan without being fined by trade organizations. Higher organizations justify this on the ground that the delivery of goods is

reduced for objective reasons. I think that everyone should work under equal economic conditions and answer strictly for the fulfillment of their obligations.

What can trade enterprises do to satisfy consumer demand more completely? We, for example, collaborate with cooperatives and lease them commercial space. We also receive from them people who are engaged in individual labor activity and products for subsequent sale through our sections. Contracts on such collaboration have already been concluded with 164 cooperatives and only in 9 months of last year did we sell more than seven million rubles' worth of sewn goods, haberdashery, footwear, and other products. This is profitable to us because we receive additional income in the form of lease payments, in the form of interest for rendering methodological assistance to cooperatives. We have many proposals from cooperatives concerning such collaboration.

Since we have begun discussing cooperatives, in my opinion, we must develop production cooperatives to a greater extent than intermediate trade cooperatives. After all, the latter are essentially engaged in the resale of goods, which, given the scarcity of many types of goods, results in the unjustified increase in the incomes of the cooperatives.

When I was in Hungary not long ago, I noticed that the prices on manufactured in cooperatives were considerably lower than the prices on the same goods manufactured as state enterprises. And this is because Hungarian cooperatives handle everything from production to sales to the people. I think that this experience merits attention.

In order to improve services to the population, we also sell goods on board airplanes. In 1987, sales totaled four million rubles. We are thinking about the creation of a foreign trade firm. It is no secret that we are presently purchasing a number of imported goods that do not find buyers. Order must be established here. We take part in the selection of the mix of purchased imported goods. However we do not conclude contracts with foreign firms. And when contracts are concluded, the mix can be altered because of disagreements over prices, for example. In my view, this practice is obsolete under present conditions. I think that trade organizations must be given the right not only to select goods but also to conclude contracts for their purchase with foreign firms.

I would like to say a few words about goods that are not in demand. A large part in reducing the inventory of these goods was played by the fact that under the new terms of management enterprises received the right to discount them. This made it possible for us get rid of slow-moving goods, the inventory of which was reduced from 11 million rubles to 1.2 million rubles in 1.5 years.

It has been said here that enterprises are interested in expanding the production of more expensive goods—of especially fashionable goods and goods bearing the index "N." What does this lead to? With the same volume of deliveries in value terms, trade enterprises receive a smaller quantity of goods in physical form. The possibility of satisfying consumer demand is diminishing. I believe that the delivery of especially fashionable goods for contract prices must be above and beyond the trade turnover plan. After all, they should be small, trial lots that shape demand.

Question from the audience:

How do things stand with the quality of goods currently delivered to trade?

S. Shevyakova:

The introduction of state acceptance promoted the significant improvement of the quality of goods delivered to trade. But in the event inferior goods are delivered, we impose fines under the established procedure. What is more, we have as an experiment concluded a contract with a number of enterprises to work according to the principle: from the shop to the counter. The sense of it is that the enterprise guarantees the delivery of only quality goods. Our personnel no longer check them. This is essentially work based on trust. Enterprises bear greater responsibility for their work and our contacts are improving. I think that this is a promising form of collaboration.

Question from the audience:

How effective are the penalties for shortfalls in deliveries? After all, the cost-accounting income of the trade organization is increased by their sum. Does this not make trade workers more interested in receiving the fines than the shortfall in deliveries?

S. Shevyakova:

It is true that the fines increase the cost-accounting income of the trade organization. However, fines do not make up for what we lose as a result of the reduction of trade turnover due to the shortfall in the delivery of these products. Therefore trade is above all interested in the delivery of goods in accordance with concluded contracts.

G. Zhimaleytidinova (chief economist, "Moskovskiy" department store):

In order that the seller defend the customers' interests, many things must be changed in the very system of economic relations. At present, trade and industry are on one side and the customer is on the other. After all, if it is more profitable for an industrial enterprise to produce

an expensive product, it is also naturally profitable for us to sell the expensive product and consequently to realize more income.

The existing forms of pay do not as yet make the seller face the customer.

We recently converted out departments to brigade cost accounting. Every department makes up its own wage fund from the income that is to be distributed according to the established norm. With the conversion to brigade cost accounting, primary emphasis is not on the fulfillment of the trade turnover plan but on income. Now the bonuses received by the sellers will also depend for the most part on the observance of the mandatory product mix and the quality of customer service.

The initial results of operation under brigade cost accounting conditions attest to its effectiveness. Thus, during this time, there was not a single instance when the proper product mix was not on sale and no complaints whatsoever were received.

B. Boltovski (chief economist, "Burevestnik" Factory):

We converted to full cost accounting in 1987. At the same time, we fulfilled all annual economic indicators and formed sizable funds. Our performance was also good this year. But here is the problem. Our enterprise has not undergone reconstruction for 30 years. The buildings are old and in a neglected state, the equipment is obsolete; its depreciation level is 45 percent. Now that we have money, there is nothing we can buy with it. We have about three million rubles in the social development fund. We would like to build housing but we cannot obtain a contract ceiling. The same situation holds true for production space. We would like to install new equipment but there is nowhere to put it.

Last year, we contributed 10 percent of our profits to the ministry's centralized fund; this year—29.4 percent. With such norms, we cannot increase our profits at a high rate so as to earn money for our needs. Our profits increased by almost a million rubles compared with last year, but our payments to the ministry's centralized fund trebled and we are now compelled to ask the ministry for money with which to rebuild the enterprise. Why should we pump funds from one account to another?

I would like to support the idea of the effectiveness of such a form of work as the shop-counter form. We also work in very close contact with GUM. We have created task brigades. Our people stand behind the counter and see what the customer is asking for. Such a work form (shop-counter) has raised the responsibility of our producer and forced them to do a better job. We have also set up quality groups.

As regards the correlation of growth rates, labor productivity, and average pay, in my view they were in large measure established unobjectively. For example, at our

factory in 1986 it was 1:0.58. The year 1986 was a very difficult year for us. We neither received progressive pay nor other payments. We have now begun working better. This year, we made the transition to the new pay system. Even this correlation is not adhered to. We cannot secure the requisite growth rates of labor productivity when we are still using the old equipment. It is obvious that the coefficients were established arbitrarily and without proper substantiation.

While not in any way belittling the importance of developing cooperatives, I wish to note that there are many negative features in this area today. More than 50 persons were released from "Burevestnik" over a period of 2 years. They became engaged in individual labor and joined cooperatives. Most of them were highly skilled workers. As a result, our second shift is not staffed today. Labor power is being transferred to a sphere that pays more money but that does not produce commodities in the same volume as state enterprises.

The decisions of the eleventh session, eleventh convocation of the USSR Supreme Soviet, which ratified the USSR Laws "On the State Plan for the Economic and Social Development of the USSR in 1989" and "On the State Budget of the USSR for 1989" have a clearly pronounced social orientation. The growth of real per capita income and social consumption funds is envisaged. This requires strengthening the circulation of money and raising the purchasing power of the ruble. These things depend in large measure on enterprises producing consumer goods and performing consumer services, on trade, and on banks as economic organs of management and organizers of the circulation of money. Not the last role must be played by the smooth functioning of the entire economic mechanism.

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Present Form of Turnover Tax Unproductive
18200153 Moscow SOTSIALISTICHESKAYA
INDUSTRIYA in Russian 13 Jan 89 p 2

[Interview with Doctor of Economic Sciences A. Deryabin, head of the price formation sector at the Institute of Economics of the USSR Academy of Sciences, by L. Telen, SOTSIALISTICHESKAYA INDUSTRIYA correspondent: "Turnover Tax: Whom Do We Cheat?"; date, place, and occasion not given; first paragraph is SOTSIALISTICHESKAYA INDUSTRIYA introduction]

[Text] Prices, like the weather, disturb everyone. However, the Hydrometeorological Center, in contrast to the State Committee on Prices, willingly lets us in on its secrets. And we know well why tomorrow there will be snow, not rain, but why the price of shoes is 60—alas... For example, do many know that the turnover tax makes up the lion's share in the retail prices of a number of goods and precisely it directly affects their level? How does this economic lever operate in our country? Does it help to

solve urgent financial problems, or, conversely, does it aggravate them? Doctor of Economic Sciences A. Deryabin, head of the price formation sector at the Institute of Economics of the USSR Academy of Sciences, ponders over these and other questions in a talk with our correspondent.

[L. Telen] *Anatoliy Aleksandrovich, first of all, let us agree on the following: We will discuss a particularly economic category. Help us, dilettantes, to make out its social meaning. Agree?*

[A. Deryabin] Fully, especially as our entire "stagnant" financial ideology, which has given rise to the most difficult social problems, primarily the uncontrollable price rise, is reflected in the turnover tax as in a drop of water...

Nevertheless, we have to begin from the economic meaning of this type of tax, which has changed with the years.

[L. Telen] *An economic category with a rich genealogy?*

[A. Deryabin] Possibly. During the 1920's under the New Economic Policy enterprises paid many different taxes to the budget: a property tax, a land tax, a fishing tax, rent payments—in all, 86 types of taxes, including the turnover tax, which at that time directly depended on the trade volume, as all over the world. At the same time, the bulk of the profit remained at enterprises. Then the policy of an accelerated industrialization was pursued and the state—with justification or not—decided to gather all finances in one fist, in the budget. The absolute amounts of taxes were increased and then only one tax replaced them. This tax, which contained many other taxes, was conventionally called the turnover tax, although at that time it no longer depended on any turnover.

[L. Telen] *Well, was a single rate introduced for all enterprises?*

[A. Deryabin] Of course, not. Previously, their payments to the budget were different—they depended on geography, the size of the enterprise, and the number of workers—and the sums were different. At first, I repeat, some logic was followed. But all these subtleties were alien to the administrative system and turnover tax rates gradually began to be set in a completely arbitrary manner. To take as much as possible from enterprises—this is the only economic meaning that remained.

[L. Telen] *Has it remained until now?*

[A. Deryabin] Alas... Judge for yourself. In our country the turnover tax is the difference between the wholesale and the retail price, or between two types of wholesale prices if the customer and the seller are enterprises. This difference makes up 50, 100, and sometimes even 1,000 percent of the enterprise's wholesale price. For example, the wholesale price of a color television set is 200 rubles

and the retail price, 700. If the rebate to trade agencies is eliminated, the turnover tax rate will total about 400 rubles. This money goes straight to the budget.

[L. Telen] *What goals do finance workers pursue under the conditions of economic restructuring, setting different rates for different goods? Has economic logic finally appeared in their actions?*

[A. Deryabin] I am not sure. As the research by our scientists has shown, representatives of the Ministry of Finance and the State Committee on Prices can explain the amounts of rates only with references to numerous instructions and decrees. I am afraid that common sense cannot be found here. For example, why is the tax rate on hockey skating boots twice as high as on ordinary skating boots? The share of the tax is also different in the price of refrigerators or vacuum cleaners of different marks. Enterprises producing better models also give back bigger sums through the turnover tax. Is this fair? The vast number of letters, regulations, and instructions has deprived this financial "creative work" of any real meaning.

[L. Telen] *However, a higher meaning is understandable. It is still the same: To withdraw a little bigger sum from the retail price and to assign it to the budget.*

[A. Deryabin] A higher meaning? Nothing of the kind—elementary short-sightedness! Increasing the budget revenue today, the Ministry of Finance seemingly does not think about tomorrow. Well, if we completely take away everything from the enterprise, it will not be able to develop production and, consequently, bring a high profit and, ultimately, revenue to the budget. Conversely, it will demand money from the state. Are we striving for this? Such a policy fosters economic dependence and makes it possible to support the weak at the expense of the strong, pumping honestly earned money out of them.

[L. Telen] *We consider such a redistribution of money unproductive. But in what is the procedure, under which an enterprise easily derives profit through a price rise, better?*

[A. Deryabin] Don't forget, even in our monopolized economy a rise in prices has limits. Demand determines them. Under the conditions of a healthy market without fail it will force—and does force!—the enterprise to lower the price. And then a simple mechanism is activated: The profit obtained from the high price of a scarce commodity is assigned for production expansion and, thus, a price reduction in the near future is guaranteed. I repeat, high prices can have only one such justification.

[L. Telen] *I assume that it is not necessary to explain to the reader what happens when this mechanism is switched off. Somehow I don't recall a case when a scarce commodity has become cheaper and available to all. In my memory television sets, coffee, leather articles, and fur*

have gone up in price, but are far from abundant. For the customer this is ruinous, but, perhaps, this is profitable for enterprises?

[A. Deryabin] Indeed, this happens in our distorted economy. More often, however, the situation is different.

Imagine that a radio plant produces a combine, the price of which is 400 rubles. The customer does not want to lay out such money for this equipment. But the plant cannot lower the price: The tax rate set from above is such that a step toward the customer would make production unprofitable. As a result, we seek in vain a commodity, which we could afford, and the enterprise loses customers...

[L. Telen] *And the budget can also run aground...*

[A. Deryabin] Not at all. The turnover tax is already in the budget!

[L. Telen] *How is that? My money remained in my purse and your radio receivers, at the warehouse. Who will pay the tax and from what savings?*

[A. Deryabin] The wholesale base. As soon as a commodity appeared at it, trade right away received credit in the bank against it and paid a tax from this money.

[L. Telen] *It seems that now I understand why any cheap clearance sale comes to us with such effort. Once trade takes credit with an aim at a high price, try to force it to reduce it.*

[A. Deryabin] But in all countries throughout the world prices are reduced and how... Today you buy something for 100 dollars and tomorrow you regret doing it: It has already been reduced to 50. The faster the turnover, the higher the profit. "Damned capitalists" learned this truth a long time ago.

[L. Telen] *Are they also tied to the state with the turnover tax?*

[A. Deryabin] Yes. However, first, it is really calculated from the turnover and makes up a small share—3 to 5 percent—in the price. Second, it is imposed only on consumer goods. Finally, it is withdrawn into the state budget at the moment of sale, that is, when the money for the commodity is in the store's cash box.

[L. Telen] *But, as far as I know, in our country the turnover tax began to be withdrawn not even from trade bases, but from enterprises and, moreover, at the moment of output. And representatives of the Ministry of Finance try to convince us that this innovation is a progressive step.*

[A. Deryabin] It is very progressive... It feeds the budget with a ruble not backed by a commodity. After all, a product at a warehouse is not yet a commodity! What

can be more ruinous for the financial system? To give up emission and to increase credit money, in essence, the same superfluous paper money!

[L. Telen] *Do you think that this will aggravate inflation even more and shatter money circulation?*

[A. Deryabin] Yes, it will not strengthen it. It has long been clear to all competent economists: The existing turnover tax—the child of the administrative system—plays no productive role in the economic life.

[L. Telen] *As far as I understand, it harms not only the economy. How will a state that jacks up prices, absolutely not conforming to common sense, look in the eyes of its economically enlightened citizens? The retail price of the cheapest winter boots amounting to 90-100 is incomparable with the wholesale price. The rest is the turnover tax. And the same panty hose, furs, dresses, and coats... Things get to the point where even in the contractual price the State Committee on Prices tries to establish the tax rate from above, raising the crossbar to a fantastic height and, as always, arbitrarily. Perhaps it is also time for our finance workers to demand explanations: Try, finally, to explain your logic.*

[A. Deryabin] Good appeals! As is well known, departments are resourceful in disputes and I am confident that there will be more than enough arguments. Only I am afraid that foresight will not be found in them. But precisely foresight distinguishes the good finance worker from the bad one. Remember Balzac's Gobseck, who, while adding profit, always tried to look at the future of his clients.

[L. Telen] *But why for so many years you did not even try to solve this problem? Are you ready to assume the guilt of your colleagues as well? After all, you, scientists, should have opened our, suffering customers', eyes a long time ago.*

[A. Deryabin] Guilty? To be sure. However, precisely the economic restructuring has aggravated the situation. Cooperatives and individual masters, from whose output no one rips out any turnover tax, have appeared. And state enterprises have turned out to be under obviously unequal conditions. Only, please, understand me correctly. I am not for cooperatives having it as difficult as state enterprises. I am for the plant having it as good as an artef.

Thus, the turnover tax and, in general, our entire tax system are incompatible with the existence of different forms of property and with the new economic policy.

[L. Telen] *"It is easy for Petrakovs, Abalkins, and Deryabins to teach us," representatives of ministries and departments tell journalists, "but ask what they can propose." I take this opportunity and ask.*

[A. Deryabin] First of all, it is necessary to restore an efficient system of payments to the budget. The turnover tax should be divided. Let the differential rent, both sectorial and intersectorial, the payment for resources, the property tax, and so forth return to our economic life. A special tax on a superprofit can be introduced.

[L. Telen] *A superprofit? Is this concept not too relative? I, a director, will consider that it is not "super," but just right, whereas you, the minister of finance, will ask for an exorbitant tax...*

[A. Deryabin] No, it is not difficult to understand this. If out of social considerations the state sets a high price of vodka, then from what item should the profit go to the manufacturing plant? This is a superprofit.

[L. Telen] *Everything?*

[A. Deryabin] Of course, not. I would replace the profit tax with the added value tax.

[L. Telen] *Is this something new?*

[A. Deryabin] In no way, this is a lever tested by finance workers in all developed countries. The profit tax is bad, because it permits a recalculation. I manufacture machines and pay a tax on the entire profit. However, the tax had already been taken from the profit of metallurgists, who gave me metal, of chemists, who delivered the dye, and of glass makers. I once again pay the tax for them. Is this reasonable? There is also another trick. The added value tax makes a price reduction profitable. The lower the price, the smaller the tax and vice versa.

[L. Telen] *Should the turnover tax be abolished?*

[A. Deryabin] No, but it should be made like it is all over the world.

[L. Telen] *Should this system be applied to all enterprises—state, cooperative, and joint-stock?*

[A. Deryabin] Just that.

[L. Telen] *However, such a large-scale restructuring will take more than a day and will not be easy. Is it not utopia to undertake it today, when the economy is in a difficult state anyway? Will it not undermine money circulation even more? Will it not deplete the budget?*

[A. Deryabin] No, rather it will weaken all our financial problems. Although, I agree, it is impossible to carry it out in two stages—painstaking work will be needed. We will have to move gradually to the scientific taxation system. However, we must begin this movement now, at least by giving back the turnover tax its true meaning.

[L. Telen] *What is the problem?*

[A. Deryabin] Everything lies in this sluggish financial thinking. Everything rests on one main principle: To obtain maximum money instantaneously and tomorrow we'll see. Furthermore, under the new tax system the financier—more accurately, the finance official—will lose a good half of his authority.

INVESTMENT, PRICES, BUDGET, FINANCE

Price Reform Necessary, However Painful
18200172 Moscow SOVETSKIYE PROF SOYUZ Y in Russian No 1, Jan 89 pp 8-10

[Interview with Nikolay Petrovich Shmelev, doctor of economic sciences, scientist and commentator, by A. Krotkov: "Price Reform: Must It Be Rushed?"; word in boldface as published; first two paragraphs are SOVETSKIYE PROF SOYUZ Y introduction]

[Text] The forthcoming price reform has probably already broken all records for number of polemical articles dedicated to it and mutually exclusive suggestions expressed about it. However, the feverish passions that surround it are not subsiding—an optimal variant for executing it still has not been found.

Today the well-known Soviet scientist and commentator, Doctor of Economic Sciences Nikolay Shmelev, shares his thoughts on the vital problem in an interview with our correspondent.

[Krotkov] Nikolay Petrovich, I am probably not mistaken if I say that most people think about the imminent price reform with disbelief, even with hostility, expecting no good to come of it. What is it—a simple fear of the unknown, of something new, though it promises only something better? Or are all the public's apprehensions not baseless?

[Shmelev] Alas, they are not. The impression is that the planning organs and agencies themselves right now do not have a clear notion about the purposes of the reform and about realistic methods for executing it. But a step forward taken blindly can have grave consequences. The latest turn of events engenders the apprehension that the reform will only complicate the situation in which our national economy finds itself.

The 19th Party Conference confirmed anew the intention of the country's leadership to execute the reform in such a way as not to hurt the public. The announcement of our leader that the state will, through appropriate increases in wages and pensions, return completely to the people everything that the budget gets from the elimination of subsidies in prices for food products undoubtedly was of the greatest importance.

[Krotkov] So what is there to be afraid of then?

[Shmelev] Even if the intention is realized completely, I fear it will not be possible to avoid injury for the public.

For the present, as far as I know, Gosplan and Goskomtsen [State Committee for Prices] are talking about only two questions—about how much prices will be raised on basic types of foodstuffs, and about what the amount of the appropriate compensation should be. But no one is talking about what will happen the next day, after prices are raised and compensation to the public has been paid.

And only one thing will happen: there will be another stage in the spiral of the rise in prices, which will right away affect other types of output, compensation for the increased cost of which has not been called for. Such a thing has already happened. After an increase in the cost of meat, bread and oil, prices for other commodities rose then and there. Moreover, since an appropriate compensation for deposits in savings bank has not been called for, this will reduce their real value right away.

[Krotkov] Well what, in your view, will be the magnitude of possible harm to the buyer?

[Shmelev] It is difficult to judge this right now, when concrete plans for the reform are being kept a deep secret. But information leaks compel one to presume that under the most generous variant of compensation, the damage for each worker can, in and of itself, come to a considerable amount. If one considers the inevitable new stage of the price spiral, as well as the depreciation of deposits in savings banks, then the harm will, naturally, be still higher. Given our average 210 rubles of pay, the consequences will be appreciable for all.

Perestroyka cannot withstand this. Gosplan and other agencies continue, judging by everything, to stand on shortsighted "redistributive" positions. The essence of it can be expressed about like this: we will plug up a hole in the budget for 3-4 years and everything else can go to hell.

[Krotkov] Pardon me, but are you not exaggerating? To listen to you, it is impossible to trust Gosplan and Goskomtsen at all....

[Shmelev] Possibly, but not willy-nilly. Let us recall some history—the reform of 1947, which was accompanied by direct confiscation of the people's savings, let us recall the 1962 increase in prices for meat and dairy products, which was not completely compensated for by a reduction in prices for manufactured goods, and the repeated subsequent increases in prices and rates for the most varied commodities and services, about which, at times, there has not even been an explanation.

Public consciousness is sluggish: the public's trust in the state is won in terms of years, even decades, but it can be lost in an hour. Unfortunately, almost nothing has happened in the economy in recent years that would increase

trust in the state's economic policy: despite widely publicized economic transformations, the lines at counters are still just as long, the show windows are empty as before, and the living standard has not been raised.

[Krotkov] Yes, the situation is sad....But what are you getting at? What follows from all this?

[Shmelev] The fact that under prevailing circumstances the leadership has no realistic possibility for waging a pricing campaign. No matter how carefully you prepare for a rise in retail prices, no matter what compensation the consumer receives, the majority all the same will prove to be dissatisfied, and credit for the new policy will be seriously undermined. "Thus perestroika has come down to a rise in prices"—it is easy to predict that such an opinion will be typical and predominating.

[Krotkov] What do you propose? Defer the reform? Turn it down entirely?

[Shmelev] I propose to execute it in two stages that are separated from each other by several years. Change in retail prices should be the second stage and it must not be rushed. The final goal—reducing to a minimum centralized interference in price-setting and gradually transferring price-setting functions to the market as it becomes saturated with commodities. Dispensing with centralized restriction of market prices apparently is impossible as long as the market is empty, as long as monopolies in the form of giant associations and whole ministries, unrestricted by antitrust legislation, throw their weight around.

It is possible and necessary to do something else, without putting it off—to level the basic proportions of wholesale and purchase prices. This should be the first stage of price-setting reform.

[Krotkov] Why?

[Shmelev] One of the grave consequences of the administrative-command system is the arbitrary distortion actually of all basic price ratios in our economy. Thanks thereto, we have artificially understated prices for raw materials, fuel, foodstuffs, transport and housing and have, at the same time, artificially overstated prices for machinery, equipment and the whole range of manufactured consumer goods. Our prices are often either higher or lower, 3-fold, than world prices. They do not correspond with the actual costs necessary for producing the various types of output, leaving a most important obstacle in the path of converting our country's economy to self-financing. I emphasize—*real* self-financing. Enterprises of losing extracting branches, much as they would like to, cannot support themselves, and must, for their upkeep, take away a portion of the income of those enterprises whose profitability, thanks to overstated prices for their commodities, is unjustifiably large.

The following would signify approximately, at the retail price level, the elimination of upsetting distortions: to have, instead of the current ratio of 2 rubles for a kilogram of meat, 50 rubles for a pair of men's shoes and 700 rubles for a colored television set, a ratio that is more realistic and corresponds to actual costs and world trends—a ratio of 4-4.5 rubles for the meat, 24-27 rubles for a pair of men's shoes and 250-280 for a color television. Prices for fuel and raw materials should rise accordingly, and fall for, let's say, a car. Until we reach such price ratios, we will live in an economically unreal world, in a peculiar "kingdom of curved mirrors," where everything is supplied from head to foot.

[Krotkov] But then the consumption of meat will be reduced and demand for shoes, televisions and cars will increase. As a result, the low-paid segment of the population, for whom meat is far more important than a car in everyday life, will suffer.

[Shmelev] The reform must call for appropriate compensation so that people will not suffer.

[Krotkov] This means, nevertheless, compensation....Then in practice, will your variant of reform differ much from Gosplan's?

[Shmelev] Gosplan, as far as I know, does not for the time being call for a reduction in prices for manufactured consumer goods, machine tools and equipment. Why, they say, if they seize them with both hands? And consequently, it is a question not of eliminating disproportions that sustain development of the national economy but only, I repeat, of patching up of holes in the budget.

Meanwhile, an increase in prices for the output of branches that lose undeservedly nowadays and an automatic discarding of subsidies to them would enable such bizarre phenomena as the turnover tax, which is used in the form of a source of budget income, to be dispensed with. Today, state subsidies for the consumer and the turnover tax, which goes into the state budget, almost equal each other. Why must we have this shifting of money from pocket to pocket? Both the one and the other are improper, uneconomic phenomena.

[Krotkov] It certainly is difficult to disagree with that. But nevertheless if prices for meat are raised, there still will not be more of it and, all the more so, there will not be more cars and television sets if they become cheaper. Do we gain much here? It will be impossible, as before, to go into a store and buy a car, and on the black market, where price is determined by the degree of shortage, for mere mortals it is beyond their means, and it will remain so....

[Shmelev] You are right, the shortage will not disappear in the blink of an eye. The economic mechanism being introduced today should save us from it. However, until it begins to give an appreciable yield, at least five years,

as a minimum, will pass. How to get by during this period? Be assured, there is a way out. The situation at the consumers' market can improve sharply by increasing imports of consumer commodities into the country by about 5 billion dollars per year, according to my calculations.

[Krotkov] It sounds extraordinarily tempting. Such a proposal will for sure reach the hearts of millions of Soviet buyers. However, where, pardon me, will we get the dollars, the foreign currency, for this? We are not doing well, the way things are with us today.

[Shmelev] That is absolutely true. Any person acquainted with the country's foreign-trade situation will tell you this. But the existing foreign exchange can be spent with great benefit.

A shift in import priorities is necessary. Why isn't the importation of manufactured consumer goods raised above 5 percent of all the country's imports for hard currency even in the best of times, when it is well known that the income potential of such imports for the state budget will sometimes reach several percent? From the point of view of national economic stability and activity and the stability of our ruble, this does not yield to any explanation. Not to mention morale considerations, when the state, receiving this income from the consumer, at the same time restricts even the importation of medicines. For the state today there is nothing that is more advantageous than the importation of consumer goods, and there is no point in taking the view that any such imports only does violence to the state's interest, only makes a forced concession to the whims of an irresponsible public.

[Krotkov] In order to increase this importation, it is necessary to cut something. But what?

[Shmelev] In order to answer this question, one must recall what we are importing primarily right now. In the first place, it is grain and meat, second, industrial equipment for new construction projects (mainly for heavy industry), and third, raw materials and components and spare parts for existing production facilities. Obviously, not much can be saved in this last group—the fact is that these facilities are operating and should continue to operate. Well what about the first two groups?

We are spending enormous sums on grain each year, even not counting the freight. This figure can be reduced. Some of our kolkhoz chairmen are advancing this idea, for example: why does the state buy grain abroad? Give us a guarantee that, for deliveries of grain to the state above the level, say, of 1988, we will be paid in hard currency and that this currency will be at our disposal. In 2-3 years those millions tons of shortfalls of grain will be provided, and, as a minimum, at a price half the world level. A crazy thought, some specialists say. But what is nonsensical about it? What is unrealistic about it, if we

believe in ordinary peasant common sense and are not guided by all these numerous "impossibles" which for 60 years have been hammered into us with such persistence? And indeed is this not a real source of savings of hard currency, through which alone it will be possible to solve almost half of the problems of importing manufactured consumer goods?

Or let us take equipment for industrial construction projects. Today more than 5 billion exchange rubles worth of it lie uninstalled throughout the whole country. It is rusting, aging and being stolen and...it continues to arrive. Thus, is it possible to stop this flow in the next few years, at least in part? To mothball the more wasteful, the more lavish projects with far-off or dubious economic yield, to cut new construction in heavy industry, since we are not in the mood for it right now? And to release the funds thus freed for the direct importation of consumer goods, for the modernization of those industrial branches that are producing goods in large-scale demand, for the purchase of one or two plants for cars and for good color television sets.

[Krotkov] Let us suppose that there actually are possibilities for expanding imports of consumer goods, and that with its help we will also really be able to hold out for several years during the interval between the two stages of reform—by correcting the disproportions between wholesale and purchaser prices, by refraining from centralized planning, and by converting to the market as a regulator. But where is the guarantee that in this interim the disproportions will not arise again, as has happened more than once before? And then the intermediate stage will be stretched out for decades, and the temporary support from outside by imports will take on a permanent nature.

[Shmelev] Such a danger is not precluded. Experience indicates that, after a certain time following a rise, for example, of purchase prices for agricultural products, expenditures for agricultural production rose, and it again became a small-profit activity and then a losing one, then it began to live on subsidies and, in the final analysis, prices had to be raised again.

The causes of such a cycle are well known and have been described in detail several times. I will remind you of them briefly. Branches with high monopolization of production and rapidly changing products mix, such as machinebuilding and light industry, possess the greatest capability for "twisting" the price. Here it is most difficult of all for Goskomtsen to check the validity of the calculations that the producers present. Another matter: agriculture, the fuel industry and the raw-materials branches, where there are few basic products, are updated slowly, and monitoring their prices "from the top" proves to be relatively effective. Because these branches also get periodically into the nonprofitable category: prices for the machinery they buy grow continuously, while prices for the products they produce remain stable for a long time.

We still lack such a lever as competition, and breaking this vicious circle is impossible. This is why, it seems to me, we should not delay the second stage of the reform—the conversion to market regulators of prices: 6-7 years after the elimination of wholesale disproportions surely would be sufficient.

[Krotkov] I am not sure that a large portion of the activities will not fall again into the losing category, supported by subsidies, by the end of the period....

[Shmelev] I also am not certain. But this does not change matters. And it will be well known to you that even today the state has a realistic potential for getting rid of subsidies for foodstuffs, which weigh down the state budget. Indeed the sharp growth of foodstuff subsidies—from 20 billion to more than 60 billion rubles for 1982-1987—was provoked, in essence, by one thing: a rise in purchase price specially for unprofitable, weak farms. The absurdity of this measure is obvious. It turned out that we paid poorly the one who worked well, while we paid well the one that was all thumbs.

I am convinced that today the state can dispense with artificial support of such farms, with artificially overstated purchase prices for their output. Fewer than 30 percent of the farms are right now producing about 80 percent of all the country's agricultural output. Eventually the schedulee should be based on productive farms, which do not need artificial state support and which at present need only one thing—to be freed from the all-powerful administrative stratum that binds them hand and foot. The same can be said also about most industrial enterprises. While today an artificially understated price for their output can in some cases be a justification for their unprofitableness, this pretext will be impossible to accept in calculations when disproportions between wholesale and purchase prices have been eliminated.

[Krotkov] But peculiar tails of arrears to the state that arose through no fault of theirs are dragging behind many of these enterprises and farms. What is to be done with them?

[Shmelev] There is no unresolved problem here. Such debts can be written off. This should be the last assistance the state gives them. And for the others, leave them to their own devices. Let them join, if they can, stronger collectives, let the kolkhozes turn their land over for rental to small cooperative and family livestock activities—this should not disturb the state. A guaranteed stock of foodstuffs in the country does not depend upon them. And if these farms manage to rise to their feet without state crutches, that is all for the better.

[Krotkov] The fate of penniless enterprises and kolkhozes, perhaps actually should not disturb the state in the future. But the soviets and the trade-union committees—absolutely. In many countries the trade unions struggle actively against the elimination of losing plants

and factories. And how are Soviet trade unions to act in similar circumstances? Follow their example? But will not this mean resistance to progress in perestroika, and even more broadly—to the course of historical and economic progress?

[Shmelev] It is simply unreasonable to try to preserve losing enterprises when their situation is completely hopeless. And the trade unions that follow that policy cannot be called progressive, although we not long ago preferred not to think seriously about it. And now we are confronted, face to face, with such a problem: how not to give offense to workers of ruined plants and kolkhozes? It is not necessary to invent the wheel. World experience suggests that it is wiser to pose the question not of "resurrecting" the "souls of enterprises that have been turned over to God", but of the magnitude and form of compensation to their former workers. And it is here that the trade unions must not show weakness. I venture to recall that British coal workers and the trade unions in charge at one time got such severance pay for each one that a person could open up his own small business.

And we, by way of comparison, when we eliminate an enterprise, guarantee the average pay altogether for 2 months. This, pardon me, is the last century!... In industrially developed countries those laid off because of reduction in force are paid six months to a year of the average wage. I see a serious fault of Soviet trade unions in the fact that in our country we have been clearly miserly with severance pay. Indeed they are precisely the ones who should take a firm stand on this question.

[Krotkov] I do not entirely agree with you. High severance pay in capitalist countries is occasioned by the fact that it is difficult to find work there and searching for it takes a lot of time. We still have the reverse situation: a person does not search for work, work searches for the person. And it would scarcely be wise in such circumstances to propose a year's aid for a person, thereby encouraging him to be unemployed. But then, everyone can have his own opinion on this subject. Well, tell me, in your view what policy should the trade unions support during today's inflation: get a raise in pay, knowing full well that it will not have comradely support, thereby encouraging devaluation of the currency, or not?

[Shmelev] There cannot be a universal formula here. Let us turn to the sad experience of our neighboring Poland. It is precisely the policy of the local now-undisciplined trade union Solidarnost, which at first won the workers' popularity with demands for an increase in wages, come what may, and helped to bring the country's economy to a dead end. For after the rise in wages there followed a routine round of increase in prices, and a new raise was demanded, and so on without end....

I think that our country must approach the question of the level of workers' wages of various enterprises differentially—proceeding from the economic and financial situations of specific plants and associations. If labor

productivity, output quality and, consequently, enterprise profit grow, then the wage also should increase. But you can't do the impossible. And here the workers themselves and their leaders, who were not capable of organizing matters well, should be blamed.

The burden of responsibility that rests in such circumstances on the shoulders of the trade unions and their leaders is unusually great. For should they show the slightest weakness or inconsistency or take the step of compromise with the administrations of enterprises and with central agencies, then and there formations of the Polish Solidarnost type, which attract people with their noisy slogans and lead a country's economy into paralysis, arise as if on a murky wave of spontaneous people's anger.

We will be brave, we will realize that a difficult time awaits us. Price-setting reform, even in its ideal variant, when retail prices are left up to the market—only after we achieve at least a relative saturation of it and let several years pass after realistic ratios of wholesale and purchaser prices are established in various branches of the economy, still will be very painful. It is impossible to forecast with precision today the course of events and, moreover, guarantee full success of the reform. Everything depends just upon ourselves, on how wise and how persistent we are and how much we adhere to principle.

Comprehensive Review of Bank Policy Urged
18200249 Moscow EKONOMICHESKAYA GAZETA
in Russian No 9, Feb 89 pp 12-13

[Article by S. Assekritov, deputy chairman of the department for the improvement of the management of the national economy of the USSR Council of Ministers, under "New Economic Mechanism" rubric: "Banks: A View to Tomorrow"]

[Text] More and more critical statements about the reform of the banking system are appearing in the central press. What conclusions follow from these publications? There was, they say, a proliferation of banks and a swelling of the administrative staff but there was no improvement of estimates in the national economy or of the monetary circulation. It is often even proposed that we return to the old model of the banking system. Characteristic in this connection is the statement of Candidate of Economic Sciences V. Bochkov. In the newspaper "Sotsialisticheskaya Industriya" for 25 January, he writes: "I am convinced that the establishment of a multilayered network of banks threatens to pump monetary assets into the national economy fruitlessly to an even greater extent than in previous years. And from here it is only a short step to a worsening of the shortage of goods and to an increase in inflationary processes." These are the frightening prospects.

The uninitiated reader must be scratching his head and asking where the government is looking in such a case

and—just in case—will likewise withdraw his savings and buy up everything that is still for sale. Is that really all?

Indeed, we are still not obtaining the desired results everywhere and in everything. But can and must this always be seen as a failure? A reform of unprecedented scope is not accomplished instantly. It involves a number of stages and trying to analyze the situation too far in advance inevitably leads to mistakes. Just as does the autonomous examination of these results separately from the totality of measures to form an integral system to manage the economy.

I will answer many critics immediately and stress that the restructuring of the banking system in accordance with the decision of the government has been implemented within the scope of the total number of workers in the old banks. It is a matter of the whole system, because there could be a reduction in individual territorial units and an increase in others. In the country overall, however, the number of bankers did not increase as a result of the reorganization.

More than 400,000 people are working in the credit system numbering about 11,000 institutions. In addition, there are almost 80,000 branches of the Savings Bank serving the people throughout the country. Is this many or not? For comparison, we can say that in the FRG, for example, there are more than 45,000 banks and branches in operation with almost 600,000 workers. There are more than 5,000 credit institutions in little Austria and more than 4,000 in Finland. In most countries of Western Europe, there is a branch of a bank for every 1,000 to 1,500 people. And no one there considers bankers to be a bureaucratic administrative apparatus. They are the most powerful moving force of the economy of their state.

National or federal banks hold a special place and position abroad. This is the USSR Gosbank for us. The constitutional position on the centralized management of the unified monetary and credit system is realized by the union government through this bank. It is the emission and cash center of the country and the organizer of the planned management of this system. Its main function is to carry out the unified credit policy of the state. Gosbank coordinates the actions of all banks and organizes their work on a single methodological basis. In its hands is the centralized regulation of the monetary circulation and the monopoly right to issue cash.

In the period of the formation of the new system and the organization of relations with specialized banks, which are also state banks, the most difficult task was to change the style and methods of the work of the employees of Gosbank and its local institutions. For they held on to personnel who previously performed quite different functions. It was strange suddenly to be without customers and to give up everyday activities in providing them credit and payments service. But it was necessary to find one's place and to define the new role that Gosbank was

called upon to play, and not just in its own system but also in the entire restructuring of the management of the national economy. It is not supposed to be a mere supernumerary in the planning and acceleration of scientific-technical progress, the development of foreign economic activities, the formation of a socialist market and the activation of commodity and money relations. It was precisely from these positions that it was necessary to reevaluate the content of their own work, to overcome the stereotypes of the old thinking, to renounce petty details and private questions, and finally, to take advantage of government support.

By no means everything was done in this connection. In its formation, Gosbank encountered a certain amount of resistance from specialized banks. But precisely they were supposed to be its main support in the restructuring of the banking business. This entire foundation almost collapsed because of the endless "tug of war" in prolonged "battles" for clients, then for the number of their own subdivisions and then for their personnel strength. Under such conditions, of course, there was no time to think about analyzing the economic position of complexes or about improving credit relations with partners. Only as they went was it possible to do what they had previously done for years, making the granting of loans automatic and calmly increasing credit indebtedness.

The Presidium of the USSR Supreme Soviet was forced to issue the sharpest appraisal of the ambitious position of the managers of Gosbank and specialized banks. None of the central economic departments was given so much attention during this stage as were the banks.

The situation is now being corrected and the difficulties of an organizational nature are behind us. It is necessary to concentrate forces and energy to resolve the urgent tasks in the next step in perestroika. What directions and new questions can be singled out?

The general economic situation in the national economy dictates the necessity of introducing strict measures to save all financial resources. Under this point of view, bankers and financiers should think through the proposals on the realization of constructive measures to normalize the economy. The most acute problem is that of ensuring balance in the monetary circulation. The assertions of the authors of a number of publications that all the difficulties come from the separateness of the process in which, they say, "one is responsible for the receipt of ready cash whereas others have responsibility for its expenditure" are naive. If only the matter were this simple....

What is needed above all is to improve the very practice of the formation of the balance of monetary income and expenditures of the population and to establish effective and stricter control of its execution. Such a quarterly, rather than annual balance, in the opinion of a number of specialists, should be developed at all levels of regional planning.

Today the economic mechanism has no dependable barriers to the spontaneous conversion of noncash funds into cash. Work and services paid for from the development fund are transformed into wages. The social development fund is frequently spent for the purchase of cooperative apartments and expensive gifts and cruises. Large loans are issued for the construction of individual housing without taking into account the stocks of building materials in the market. All of this requires tax regulation, management and daily control. The first and most important task of all banks without exception is to watch over the monetary circulation.

In the current year, all enterprises and organizations in the sphere of physical production went over to full cost accounting and self-financing. These conditions do not permit living at the expense of others. It is necessary to be prepared to repay debts in default but their load is extremely great. Unfortunately, many managers with large sums in the accounts of their own enterprises are in no hurry to pay off indebtedness. The banks began to show high principles in this matter. Over the last year, the amount of loans in default was reduced by more than 2 billion rubles. One must maintain these positions, continue to recover debts and teach discipline to one's customers. The banks were able to resist the pressure of ministries and for the first time in many years did not carry out an interbranch set-off of indebtedness.

The banks were established not on behalf of the banks. The advantages of the new system were supposed to be felt by enterprises, organizations and the population. The picture, of course, was clouded by failures in accounting for output and services, instances of losses and long searches for payment documents, and delays in the release of funds for wages. They restored order everywhere but one must not stop half way to rest. The system of clearing accounts is a large field of action for improvement. There are many forms of accounts and they can be applied successfully in accordance with the customer's solvency and discipline. Why not, for example, take into account the nature of the ties between suppliers and consumers? Why not remember the promissory note? What is needed is a continuous and persistent search for the most effective forms and methods of accounting in the national economy. Gosbank is called upon to head this work and ensure methodological unity. Finally, it must become an accounting center not just in words.

But this task will take too long to resolve without revolutionary transformations in the technical equipment of all banking institutions. Computerization everywhere is the only possible way. We will not hide the fact that it is an expensive path and cannot be covered in a single day but it does guarantee success. As partners of banks, enterprises could give them considerable help and support on this path. If, of course, they sense that this is mutually advantageous.

Partnership implies the combining of efforts for the resolution of common tasks, mutual interest and equal responsibility. It is difficult to argue with the assertions in the press that there have not yet been any serious changes in this respect. At the same time, however, it is necessary to bear in mind this is a multifaceted and complex process. It is incorrect to criticize it from the positions of one side. Stricter requirements in the granting of credit and the cessation of financing when construction deadlines are not met always displease the customer but the unwillingness or inability to repay debts irritates bankers.

This is the emotional side, however, and it is necessary to find an economic and legal basis for raising the efficiency of the work of the banking system. For enterprises and organizations, this basis is defined by laws of the USSR on the state enterprise and on cooperation and is built into the very mechanism of management. In the banking business, they are just now working out the basic principles for work under full cost accounting. Unfortunately, this process has been extremely prolonged.

An important task is to stimulate the development of individual forms of production, sectors and regions. Interest policy must by no means play the least role in its resolution.

In practice abroad, where the level of interest rates is determined by demand in the market for borrowed capital, one of the means of state control of the economy is the preferential financing of special programs. Any direction of work that meets the goals of the program is encouraged by a lower interest rate for credit. It is set by the national banks. A list of such priority programs under our conditions would make it possible to protect the banks against still-existing attempts at administrative interference in their activities under the guise of state interests. Through the credit mechanism, it is possible, for example, to stimulate an increase in the production of consumer goods and food products, to accelerate the resolution of the housing problem, and to carry out measures to conserve nature. USSR Gosbank could immediately begin to work up such a list and to perform the necessary economic calculations to determine the level of interest rates.

It is likewise necessary to resolve the question of the concentration of a certain amount of credit resources in the hands of Gosbank, resources that today are being redistributed among specialized banks. This would ensure the centralized regulation of the market for borrowed capital as well as the transfer of the necessary volume of such resources to other banks for the subsequent refinancing of priority programs. For this purpose, it is necessary to establish general rules and norms to maintain a certain share of the resources of all banks in the country in Gosbank accounts.

New credit institutions in the form of sector, innovative, cooperative and other banks operating on a

commercial basis are joining the banking system. These are future competitors of specialized banks, future competitors because they are still weak and are just finding themselves. Some do not like this process but it is dictated by life. After all, there were no directives on the establishment of these new formations. It is important only that they not be transformed from banks of sectors into the pocket banks of the system of ministries and various departments. But there is indeed such a problem and this is a serious threat to their existence. The simple redistribution of financial resources by order of some "uncle"—even if he is a relative—is the path to bankruptcy and complete failure. You will not earn a lot in such a business and will not attract smart customers. Gosbank must direct their work into the proper channels and help them get established. It is necessary to set up economic regulators of the actions of these banks, to work out general rules for conduct in the market for borrowed capital, and to monitor their observance strictly.

The appearance of "little brothers" in the banking system forces one to look at the right to choose partners in a new way. Is it necessary to attach customers strictly to specialized banks or to take down these barriers? In world practice, there is complete freedom in this respect and banks fight for every client and spend significant sums to attract and keep them. This is why foreign bankers openly envy our firm attachment of customers to the corresponding banking institutions. Under today's conditions, the freedom of enterprises to choose a bank will be somewhat conditional: credit resources are limited, interest policy is still far from perfect and remains inflexible, and the number of banking services remains meager. It is necessary to comprehend this freedom to choose a bank, to prepare oneself psychologically, and to work out a way of behaving so that one will not be overly eager in the search for the least demanding creditor. But it is clear that this step must be taken on behalf of a qualitative improvement of the banking business. For this is a step toward the development and strengthening of truly partnership relations.

The freedom to choose partners and the expansion of the types of services are a sign of the universalization of banks. And it is not, of course, a question of terminology—specialized or universal. Branches of banks were established locally in accordance with the dominant industrial characteristics. In the final analysis, rayon conglomerates arose that were subordinate to several banks. And representatives of different banks began to associate through their oblast management behind a plywood partition. In "Pravda" on 7 December 1988, V. Rudko-Silivanov, chief of the Primorskiy Kray directorate of Gosbank, calls such an approach to specialization "corny." And, in general, he draws the conclusion that the specialization of banks is "not from God but from the devil." The only thing that is unclear is whom he has in mind.

Life has once again shown convincingly that in all decisions it is necessary above all to proceed from

economic expediency. If there is a need for two or three cost accounting institutions of specialized or universal banks and if the necessary preconditions exist for this and skilled enterprising personnel have been trained for it, then it is necessary to establish these banking institutions.

Still another question has to do with the upcoming reform of regional administration. In their published concept on regional cost accounting, individual union republics are raising the question of transferring all banks in their territory to their control. In our view, this attempt at administrative subordination does not correspond to the directions and spirit of perestroika and will make it impossible to carry out a unified credit and monetary policy of the state. It is more logical for joint-stock banks to function in the territory of the republics along with specialized state banks. The regional administrative authorities have the right to use part of their own budgetary resources to acquire the shares of any one of the banks. And if they want to control it, they must purchase the largest part of the package of shares. On this basis, for example, it would be possible to form a network of municipal banks. This is the right of the republics and it appears that they will soon avail themselves of it.

There has been a revival of securities in the course of economic reform. When they got the freedom to do so, enterprises, kolkhozes and cooperatives immediately assessed the situation and resorted to shares of stock as a powerful tool to bring in additional monetary resources.

But securities have their own laws and rules of circulation. This accelerating process cannot go uncontrolled. Sooner or later the question of the establishing of a stock exchange will arise. One must be prepared for this. In Hungary, they have been moving toward organizing a market council for several years. Last year, they also established a commission on ethical questions, which protects depositors from improper competition. But will it be proper here? Under what conditions will a securities market function here and under whose aegis? We should not delay in answering these questions.

Shares of stock, as a rule, provide their owners a certain income in the form of dividends. In this way, their appearance creates competition for the Savings Bank, which pays its depositors guaranteed interest, although the rate is not very high. In this connection, it should be added that the specialized banks, oriented toward cost accounting, are raising the question of also granting them the right to accept deposits from the public. It will, of course, be convenient for us inhabitants to choose the appropriate branch bank and to assess the standards of service. But what should be done with interest rates? They probably should not be determined only by the strength and economic position of a specific bank.

The banks, in accepting the obligation to serve the people, must significantly expand the range of services

provided. It is probably precisely here where there needs to be competition and variation in fees for services. High quality and standards of service attract depositors.

The problem of banks going to the outside world keeps cropping up. And the large specialized banks, having certain rights in the area of the provision of credit for foreign economic activities, fully understand the delicacy of this question and are carefully assessing the situation, whereas the new established commercial banks are declaring their willingness to perform the full set of credit and foreign-exchange operations without having either experience, or knowledge or...insurance. There are so many tempting offers from foreign banks to grant credit under what would seem to be the most advantageous conditions. But they have to pay for it with the foreign exchange that they earn and not with the funds of the Foreign Economic Bank and especially not with state funds. The banks, of course, can and must earn foreign exchange. Economic accountability requires that they do this. But their foreign economic activities require the appropriate regulation. Even the largest foreign banks set strict limits for their branches, including those in foreign countries.

All foreign exchange operations are monitored by the head bank daily and by the national bank monthly. State interests are strictly observed here. It may that initially one should also set definite standards under the control of Gosbank and the Foreign Economic Bank for the specialized banks, work out the appropriate system, gain experience in the international financial market, acquire the reputation of being reliable partners, and then gradually expand the number of banks carrying out foreign economic activities. The International Bank for Economic Cooperation and the International Investment Bank could share their experience in this matter.

The changes taking place in the management of the economy and perestroika in public and political life have sharply raised demands on personnel. There was, is and will be the problem of thoughtful, progressive and highly qualified specialists. It is especially acute for banks of the new type. The question raised by Academician L. Abalkin is not rhetorical: "Can we, in our country of many millions, find even 10 people who really understand banking policy?" ("Komsomolskaya Pravda", 8 February 1989) It is necessary to establish a strong and effective system for training specialists for this difficult but interesting work. Curricula need to be radically reworked under the point of view of the new tasks and directions of work of the banks. It is necessary to train specialists in new occupations—experts in marketing and operations with securities and foreign exchange, brokers and dealers. The schools for bankers must look to tomorrow, as must the bankers as well.

It is impossible to enumerate all the tasks in the extension of economic reform, in the resolution of which a key role has been assigned to the banks. The objective of this article is to call for a businesslike discussion of these

important questions. They must be resolved thoughtfully and for this reason the exchange of opinions by scientists, economic leaders and specialists could be very useful in practice.

Excessive Specialization of Bank System Hinders Enterprises

*18200152 Moscow SOVETSKAYA ROSSIYA
in Russian 17 Jan 89 p 2*

[Article by A. Bezdolnyy, chairman of the Kalinin Oblast Bank Council: "Someone Else's Account"; first paragraph is SOVETSKAYA ROSSIYA introduction]

[Text] The newspaper received almost 100 comments after the publication of letters on the bank reform (SOVETSKAYA ROSSIYA, 23 September and 3 November of last year). The authors, mainly specialists and entire collectives of bank administrations and departments, criticize the present bureaucratized structure of the bank apparatus and make suggestions on how to make it flexible, efficient, operational, and truly corresponding to the tasks of the modern economy. Today we continue the discussion.

As is well known, money possesses the amazing ability to increase income, that is, to make new money. The economy of all states is based on this capability of money. However, when 1 ruble and even 1 million is handled incompetently, as a rule, this results in constantly growing debts. It is not difficult to demonstrate this.

In Kalinin Oblast last year banks issued for wages 45 million rubles more than in 1987. Payments of various kinds of bonuses increased by 17 million rubles. It can be assumed that labor collectives have learned to utilize every minute of work, to save materials, power, and other resources, and to produce only excellent-quality products. However, this is not so. The number of rejects in all sectors hardly decreases and, as before, all the same goods "drab" in their consumer qualities lie on store counters. However, there are many more goods marked with the signs "novelty" and "ultrafashionable" among them. Such a commodity has a special price. If the price jumps up, lay out more money, including for wages for the producers of this product. As a result, for the same intermediary work as before people have begun to receive much more. As statistics indicates, since the beginning of the year material incentives for labor have grown much more rapidly than production volumes. A similar situation is also observed in other oblasts.

It is not difficult to reach the following conclusion: Today the mass of money greatly exceeds the mass of commodities. For example, in 1988 deposits in savings books in Kalinin Oblast increased by 117 million rubles. Now they total more than 2 billion rubles, exceeding the oblast's annual commodity turnover plan. A distinctive financial obesity of society and a serious economic disease exist.

Previously, we at least placed some barrier. This was done simply. If we saw that at a certain enterprise wages outstripped production rates, the bank did not issue this unearned addition. Today such control functions have been taken away from us. But enterprises, taking advantage of the independence granted them, have forgotten that higher wages and bonuses should be given out only if production volumes are increased and the quality of output is improved. The gate to state money bins has turned out to be wide open. How did this happen?

About 1 year ago in accordance with the party and government decree it was decided to fundamentally change the role of banks in the realization of our economic strategy. Such a step was prompted by the need to make credit one of the most important levers in the revival of commodity-money relationships, to force the ruble to work to a full measure, and to concentrate investments on priority directions, primarily such as the Food Program, social sphere, production of consumer goods, and development of services, science-intensive sectors, and economic complexes determining scientific and technical progress. For this banks were supposed to become interested partners of enterprises in order to take out together with them the country's economy from stagnation as quickly as possible. This was the intention.

Today it can be stated definitely: The bank reform did not bring the expected effect. Instead of thoughtful advisers and reliable partners banks have been transformed into bureaucratic institutions everywhere. The system is excessively cumbersome, difficult, and clumsy and fetters the independence and maneuverability of low-level links.

Let us examine our trouble without haste. In accordance with the decree it was considered advisable to reorganize existing and to form specialized, new banks with due regard for the characteristics of activity of national economic complexes. Thus, the following USSR banks came into being: the State Bank, the Bank for Foreign Economic Activity, the Industrial-Construction Bank, the Bank for Housing and Municipal Services and Social Development, and the Bank for Labor Savings and Crediting for the Public. The same structure (with the exception of the Bank for Foreign Economic Activity) was also established in republics, krais, and oblasts. This is the top of the new bank pyramid. But what is its foundation?

Rayon departments are the cornerstone. They work directly with economic organizations of all national economic sectors daily. It is quite obvious that departments should have become the center of the financial and credit restructuring and its fundamental link. However, a mass of absurdities occurred. It was planned to specialize the work of departments according to sectors. Now rayon departments of the former USSR State Bank have been renamed specialized departments. Signs and bank seals have been changed. However, functions are not delimited, because the staff of workers is very small.

Now, as before, they service the entire clientele of their rayon. At present, however, they look back at their own sign each time and, first of all, try to service "their" clients. With respect to "someone else's" clients the department does not have all the necessary powers and bears no responsibility for their financial and economic activity.

As a rule, persuasions and negotiations begin in such cases. Rayon and oblast party committees, Soviet bodies, and managers are drawn into disputes. Each time the clarification of relations results in big time losses.

It would seem that today more than ever credit should be mobile like "first aid." If there is an opportunity to buy machine tools and materials, one must buy them right away. However, if 3 to 5 days are spent on the formalization of the simplest payment credit, one may miss the opportunity, at times, irrevocably.

The pronounced departmentalism within the bank system has complicated enterprise work. Here is a specific example. At the end of August the oblast board of Promstroybank [Industrial Construction Bank] had to sharply limit the issue of credits. The measure proved to be forced and the situation, artificial. At that time Agroprombank [Agro-Industrial Bank] and Zhilsotsbank [Bank for Housing and Municipal Services and Social Development] had free credit resources—more than 20 million rubles. However, Promstroybank did not have them. Under the existing system the redistribution of funds is prohibited categorically. I consider it advisable to plan credit resources for the entire territory, without splitting them up throughout sectorial banks. This is also necessary in connection with the establishment of main economic planning administrations under oblast executive committees.

Under the new bank system trade, public dining, domestic service, and light and textile industry enterprises proved to be in an especially difficult situation. Departments of Agroprombank or Promstroybank, but in no way of Zhilsotsbank, receive and service all of them. The latter bank in a number of oblasts has only an oblast administration without rayon departments and without authorized agents in them.

One day we became interested in finding out how many commands the manager of a rayon department receives. This is what turned out: During one quarter alone the Krasnokholmskoye Department of Agroprombank (it has only 14 workers) received 360 kinds of instructions. This is not an exceptional, but an average, figure. Who generates the paper flow? The managerial apparatus. As a result of "modernization," it increased by 80 percent in the bank's kray and oblast systems. In one building in Kalinin there are now four oblast administrations. Each has its own warehouses, as usual, with warehouse men and the same number of superintendents, typing offices, archivists, civil defense workers, labor safety engineers, and many other services duplicating each other. Another

oblast administration—for bank collection—was established, although the reliability of the cash in banks and on hand under such "restructuring" in no way increased. In brief, the size of the oblast apparatus increased by 60 people. The number of workers in rayon departments—economists and accountants—had to be reduced by exactly the same number.

More than once I fervently discussed all these problems with my colleagues—workers from dozens of oblasts and krays in Russia. There is an opportunity to communicate, because precisely in Kalinin there are interpublic courses for improvement in skills of bank workers. Moreover, we meet quite often at various conferences. The conclusions, which we are forced to draw, are definite: The bank system in its present form is the result of a rash decision.

The idea of specialization envisaging the elimination of the bank system's monopoly proved to be unrealizable for many reasons. First of all, because neither our own, nor world, experience in the development of similar systems was taken into account. This was even done without taking into consideration the views of party, Soviet, and bank workers in localities and without consulting them.

In our opinion, the restructuring of banks should begin with the delegation of powers to the system's primary subdivisions—rayon departments of the USSR State Bank. A number of obsolete instructions have now been abolished. However, new hindrances, which I have discussed in sufficient detail, do not make it possible to expand. Moreover, departments are extremely poorly equipped with computers.

During a search for new things miscalculations are often unavoidable. Now, however, when they have become visible with the naked eye, they must be eliminated as quickly as possible. What measures do I propose?

All presently existing banks should be unified into one, for example, the country's central clearing-cash bank, to which rayon bank departments will be subordinate in practice. In this way they will be freed from five masters. It is necessary to more clearly define the status of the USSR State Bank and its local bodies, assigning to it the role of the country's main bank and coordinator and methodologist of temporary credit interrelationships of farms and enterprises with the state and with the developed network of commercial banks. Such a structure will free rayon departments from the waterfall of instructions from the apparatus of the oblast and central link and the released number of workers of the oblast link (in our oblast this represents no less than 100 people) will make it possible to significantly reinforce rayon departments with skilled workers. It would also be advisable to abolish specialized republic banks of the RSFSR, because in many respects they only duplicate the work of Union banks. All banks and their subdivisions should be

transferred without delay to true cost-accounting principles of activity. Rayon departments should become the basic cost-accounting link. Such measures could interest banks in the results of work of enterprises and ensure the community of their interests.

And another circumstance of no small importance: The State Bank should possess a certain immunity, which would help to ensure an unconditional observance of the economic laws of socialism. Under the conditions of the developing market and commodity-money relationships the equalization of the State Bank in rights with the Gosplan and the USSR Ministry of Finance and its direct subordination to the country's Supreme Soviet could contribute to the above. Only in this way is it possible to eliminate the pressure on the bank system on the part of ministries.

Expressing the opinion of my colleagues, I believe that it is necessary to urgently hold an all-Union council of all bank workers, who are not indifferent to the fate of economic restructuring.

New Regulations Strengthen Gosbank's Monetary Control

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[Article by M.L. Kogan, deputy chief of the directorate for the methodology of credit and accounts relations and head of the legal department of USSR Gosbank: "USSR Gosbank As the Country's Main Bank (On the Affirmation of the New USSR Gosbank Charter)"]

[Text] The 19th Party Conference stressed the necessity of accelerating the realization of the program for the financial normalization of the national economy, "including the establishment of order in the budget, the financial and credit system and the work of banks."¹ The new USSR Gosbank [State Bank] Charter confirmed by the USSR Council of Ministers, which defines the tasks and objectives of the work of USSR Gosbank, its legal position, organizational structure, and system of managing the bank, will help to resolve the set tasks.

The new USSR Gosbank Charter is based on the decisions of the CPSU Central Committee and USSR Council of Ministers on the fundamental restructuring of the management of the economy, the improvement of the banking system and the strengthening of the influence of banks on raising the efficiency of the economy. In accordance with these decisions, a state system of banks has been established in the country. It includes Gosbank and five specialized banks: USSR Industrial Construction Bank [Promstroybank], USSR Agro-Industrial Bank [Agroprombank], USSR Housing and Municipal Services and Social Development Bank [Zhilsotsbank], USSR Foreign Economic Activity Bank [Vneshekonombank] and USSR Savings Bank. Besides the USSR state banks, a network of commercial and other banks is being developed. As was noted at the July (1988) Plenum of the

CPSU Central Committee, the establishment of a ramified and effective banking system and the development of a network of commercial banks must contribute to the normalization of the economy. In accordance with the USSR Law "On Cooperation in the USSR," cooperative banks are being established that are called upon to advance credit and perform cash clearing services under democratic principles for the cooperatives included in a union (association) of cooperatives. Joint-stock commercial banks are being established within interbranch state associations and in other branches of the economy.

The new charter is the fifth in the history of USSR Gosbank. It differs significantly from those previously adopted. For in preserving a number of positions involving the role of banks in the socialist state, it develops and enriches them with fundamentally new content that meets the requirements of the current stage of development of the banking system of the USSR under the conditions of the fundamental restructuring of the socialist economy.

In all previous charters of USSR Gosbank, its tasks, functions and rights were determined based on the fact that Gosbank directly carries out credit and clearing services for its clients. The new charter juridically sets forth the role of Gosbank as the country's main, central bank and as the organizer of credit and clearing relations in the USSR. It does not enter into direct relations with enterprises and organizations with respect to their credit and clearing but determines the principles, content and forms of these relations that are realized by specialized and other banks. This led to a change in the legal position of Gosbank in the system of state authorities and in its tasks and functions.

The USSR Gosbank is one of the central economic bodies of the USSR that have been given special competence with respect to the provision of the centralized planned management of the country's monetary and credit system. As a national body, it is called upon to help resolve fundamental economic and social tasks in the scope of the entire country, ensuring the successful functioning of the credit and monetary mechanism and its effective influence on the development of the economy. In this connection, the charter provides for the participation of Gosbank in the elaboration of a state plan for the economic and social development of the USSR, a state budget, a composite state financial balance, a balance of income and expenditures of the population, and a consolidated foreign exchange plan for the country.

The USSR Constitution relates the management of the unified monetary and credit system to the guidance of the USSR in the person of its highest bodies of state authority and state management: the USSR Council of Ministers works out and implements measures to strengthen the monetary and credit system. These powers are carried out by the USSR Council of Ministers directly as well as through the unified national system of

banks of the USSR. The USSR Council of Ministers directs the work of the banking system, defines its structure, the competence of each of the banks included in it, and their subordination to the Government of the USSR, establishes the most important conditions for their efficient functioning, and affirms the charters of USSR Gosbank and specialized banks. The USSR Council of Ministers affirms the summary credit and cash plans of the USSR, which are the basis for the work of all banks in the USSR.

In accordance with its charter, USSR Gosbank regulates the work of the unified system of state banks in the USSR and provides for their close interaction in implementing a unified state policy in the area of the monetary turnover, the extension of credit, financing, clearing and cash operations. But the role of USSR Gosbank under today's conditions is not limited to this.

As the country's main bank, Gosbank organizes the credit and clearing relations in the national economy, provides for the centralized planned management of the country's unified monetary and credit system, and regulates the work not only of specialized but also of commercial, joint-stock and cooperative banks and other credit institutions. In carrying out its functions, Gosbank contributes in every possible way to the observance of national interests, to the development of initiative and enterprise of enterprises, associations and organizations, to the strengthening of cost accounting, and to the realization of their rights foreseen by the USSR Law "On the State Enterprise (Association)" and the USSR Law "On Cooperation in the USSR." The work of Gosbank is closely linked with the work of other central economic bodies that participate directly in the planned regulation of the monetary and credit relations in the country, above all USSR Gosplan and the USSR Council of Ministers.

The legal position of USSR Gosbank has significant special features. The work of Gosbank combines the functions of a state management body with independent participation in the economic turnover as a legal entity operating under the principles of full cost accounting and self-financing. Under the conditions of the restructuring of the banking system, the management activities of Gosbank were further developed and were filled with new content in connection with the transformation of USSR Gosbank into the country's main bank. Significant changes also took place in the cost accounting work of Gosbank, it was given more rights to dispose of enormous monetary resources in the day-to-day management of Gosbank, the sources of profit changed, provision was made for the formation of economic incentive funds, etc.

The charter sets forth the main tasks of USSR Gosbank, which determine the direction of all of its work. One of the most important tasks of Gosbank is to raise the efficiency of use of national credit resources and to achieve good final results in the work of the national

economy of the country and its regions and the establishment of an effective anti-expenditure credit mechanism on the basis of the strict observance of the principles of the extension of credit. For this purpose, Gosbank is introducing the most economical and progressive forms of extension of credit and clearing that contribute to the acceleration of the rate of turnover of working capital, to improving the yield on capital and profitability of production, and to strengthening payments discipline in the national economy. It analyzes the monetary and credit relations in the national economy and formulates scientific forecasts.

Among the main tasks of USSR Gosbank is the comprehensive strengthening of the monetary turnover in the country. Under the new conditions, the role of Gosbank in the regulation of the monetary turnover is increasing significantly. Being the sole center for emissions, Gosbank's charter gives it powers in carrying out state policy in the area of the monetary turnover and the improvement of its organization and further strengthening. In accordance with its charter, Gosbank centrally regulates the monetary turnover in the country, has the monopoly right to put into circulation notes of the USSR State Bank, state treasury notes of the USSR and coins in the territory of the USSR in quantities determined by the USSR Council of Ministers, and organizes their making, transfer and storage. USSR Gosbank has the right to create reserve stocks of treasury notes and to set the size of these stocks funds and dispose of them.

The charter provides that Gosbank regulates the monetary turnover in close contact with the councils of ministers of the union republics and other state control bodies. USSR Gosbank puts together a draft quarterly consolidated cash plan of the USSR and the emission results for the union republics with the participation of the councils of ministers of the union republics and, together with USSR Gosplan and the USSR Ministry of Finance, presents them to the USSR Council of Ministers for confirmation. It determines the system for the development of the cash plans of the union and autonomous republics and territorial administrative units; together with USSR Gosplan, the USSR Ministry of Finance and the councils of ministers of the union republics, it prepares and implements measures to strengthen the monetary turnover and to raise the purchasing power of the Soviet ruble.

The charter sets forth the basic functions of USSR Gosbank in the fulfillment of the USSR state budget in cash terms under the conditions of the reorganized banking system. It is foreseen that Gosbank organizes and fulfills the state budget in cash terms through its own republic banks and local boards as well as through rayon and city branches of specialized banks and, in agreement with the USSR Ministry of Finance, establishes the system for the performance of operations in the fulfillment of the state budget in cash terms.

The charter pays considerable attention to the functions of USSR Gosbank in foreign economic work. Gosbank has important powers in ensuring a unified state foreign exchange policy. It establishes official rates of foreign exchange against the Soviet ruble that must be applied throughout the territory of the USSR, publishes these rates in the press, and represents the interests of the USSR in relations with the central banks of other states, in international banks and other financial and credit organizations.

Gosbank gives permission to establish joint financial and credit organizations in the territory of the USSR with banks of other countries, can participate in the established manner in the capital of joint-stock or other companies abroad and in the territory of the USSR, and resolves other questions in foreign economic work within the limits of its own competence.

The charter gives Gosbank rights to perform banking operations directly: to receive credit from foreign and international banks and other financial and credit organizations, to place loans, to grant credit and loans to foreign and international banks and to credit and other organizations, to accept funds in accounts and deposits from these banks and organizations, to sign correspondence and other contracts with them, to accept sureties and to issue guarantees for the monetary obligations of Soviet and foreign legal entities as well as international organizations.

In connection with the new tasks and functions, the charter provides for a significant expansion of the rights of USSR Gosbank, which has been given the right to resolve a number of questions in the area of monetary and credit policy that previously were in the competence of the USSR Council of Ministers. Gosbank has been granted the right to resolve basic questions in the organization of the credit and clearing work of the state, which has to do with raising its responsibility for strengthening the country's monetary and credit policy.

The interrelationships of Gosbank with specialized and other banks attain particular importance under the conditions of a ramified credit system. Among the main tasks of Gosbank, the charter provides for the regulation of the work of banks, the execution of control in all basic directions of the work of specialized banks, and the analysis of the measures that they undertake in the restructuring of work under the new conditions of management.

A special feature of the state banking system of the USSR is that each specialized bank, while being an independent body directly subordinate to the USSR Council of Ministers, cannot carry out a number of important functions at its own level without the general regulation of its work as part of this system ensuring the implementation of a unified monetary and credit policy in the scope of the entire country. Such regulation is performed by USSR Gosbank as the country's main bank at the head of the

banking system. It is important to stress that the system of banks is built and functions under the principle of democratic centralism. It organically combines the broad powers of USSR Gosbank with the substantial rights and full responsibility of each bank in the resolution of questions in the competency determined by its charter.

Gosbank regulates banking work in the country directly through economic methods. In addition, the charter provides for the broad application of the method of coordination and, within certain limits, of administrative methods. These methods can be combined in the specific legal relations of Gosbank with other banks of the USSR.

One of the basic economic methods is the regulation of the work of banks by granting them centralized credit resources. The charter provides that USSR Gosbank concentrates credit resources formed through the funds of the state budget and funds in clearing and passes them on to other banks for the extension of credit. In addition, a reserve is established in Gosbank in quantities determined by the consolidated credit plan of the USSR for the corresponding year, which it uses to satisfy supplementary needs for monetary resources arising in the course of the fulfillment of the state plan for economic and social development. The formation of a fund at the disposal of USSR Gosbank for the regulation of the credit resources of the banking system through part of the resources and deposits brought in by specialized banks has great importance for the maneuvering of credit resources and their distribution among banks taking into account the tasks facing each specialized bank in some period or other. The amount of the funds brought in is determined by the Board of USSR Gosbank in agreement with USSR Gosplan and USSR Ministry of Finance. Among the economic methods of regulation, one should include the right of USSR Gosbank, with the participation of specialized banks and in agreement with USSR Gosplan and USSR Ministry of Finance, to set the interest rates for the use of credit.

In addition to the state banks of the USSR, the country's unified banking system includes cooperative, commercial and other banking institutions and their work also requires specific regulation by USSR Gosbank, with the objective of combining that work with the general objectives and tasks of monetary and credit policy. But the differences between these banks and specialized banks with respect to the form of property, scope of work, methods of implementing it, and principles of organization determine the essential features of such regulation.

Gosbank must regulate their work primarily by setting economic standards that allow these banks to function normally as part of the unified credit system and that help to defend the interests of their customers. Such standards include, in particular, the correlation between the bank's own funds and its obligations, the indicators of liquidity of the balance in the form of maximum

standards for the correlations between the volumes of credit resources brought in and placed, and the establishment of the size of reserves as a percentage of the total volume of funds brought in by the bank with these reserves being deposited in a special account with Gosbank.

An important form of the interrelationship between Gosbank and other banks is coordination, which ensures the consistent implementation of a single state policy in the area of the monetary turnover, extension of credit and clearing. Thus, the charter provides that USSR Gosbank together with the specialized banks determines on a unified methodological basis the objects of the extension of credit, conditions for the issue and liquidation of credit, preferential terms in the extension of credit, measures for the influence of credit on borrowers and the conditions for their application, all of which are compulsory for all banks in the USSR. It establishes rules for clearing and the handling of cash operations in the national economy, the system for accounting and reporting in banks, and the magnitude and system for paying for resources drawn in from other banks.

In accordance with its charter, USSR Gosbank with the participation of specialized banks realizes many other functions bestowed upon it: it drafts composite credit plans for the USSR, prepares and implements measures to strengthen the monetary turnover in the country and to raise the purchasing power of the ruble, collects cash, and carries out work in the automation and mechanization of banking operations.

The coordination of the work of banks is also helped by the fact that Gosbank has a right to receive reporting and other materials from other banks that are necessary in the drafting of composite credit, cash and foreign exchange plans, in the analysis of the course of the utilization of these plans and in the implementation of a unified state policy in the area of the monetary turnover, extension of credit, financing, clearing and foreign exchange operations.

The establishment of a Council of Banks of the USSR and bank councils at the republic, kray and oblast level headed by the chairman of the USSR Gosbank Board, the chairmen of the boards of republic banks and the chairmen of the directorates of USSR Gosbank, respectively, helps in the necessary coordination of the work of the banking system of the USSR. The Council of Banks of the USSR is called upon to help in the resolution of the tasks in the improvement of the work of the banks of the USSR on a unified methodological basis and in the development of the most important questions in the execution of state policy in the area of the monetary turnover and credit. The local bank councils examine the questions of the strengthening of the monetary turnover, the extension of credit and clearing taking into account the development of the economy of the corresponding regions and work out measures to coordinate the work of local bank institutions. The effective work of bank

councils is very important for the making of the proper and soundest decisions by Gosbank and specialized banks in accordance with the competence specified in their charters. But it should be emphasized that the bank councils, being coordinating bodies, do not have administrative powers.

The functioning of the banking system of the USSR on the basis of the principle of democratic centralism dictates USSR Gosbank also utilizing administrative methods primarily in the form of the issuance of legal documents compulsory for all banks. These documents regulating monetary and credit relations do not effect other areas of the work of these banks as independent bodies and legal entities.

Among the administrative powers of Gosbank, one should include, in particular, its right as foreseen in its charter to issue compulsory instructions within its competence to banks and other credit institutions, to establish in agreement with the USSR State Committee for Statistics a list of reports of specialized and other banks in the USSR, to specify a minimum cash balance for institutions of specialized banks of the USSR carrying out the cash servicing of enterprises, organizations and institutions, and to register the charters of commercial, joint-stock and cooperative banks and other credit institutions established in the territory of the USSR.

Control functions occupy a special position in the work of USSR Gosbank. The area of this control has been changed substantially in the new charter in comparison with the old one. It is now primarily linked with the work of specialized and other banks in carrying out their banking functions. Control by Gosbank is one of the most important manifestations of its leading role in the banking system. It makes it possible to reveal existing shortcomings in the work of individual banks in time and to take the necessary measures to eliminate them, thereby ensuring the normal functioning of the unified banking system.

Gosbank exercises control over the progressive credit policy carried out by specialized banks, over the effective impact of the credit and clearing mechanism on the final results of expanded reproduction, over the observance of payments discipline in the national economy, over the elaboration and execution of measures to strengthen the monetary turnover, and over the fulfillment of the budget of the USSR in cash terms in the corresponding territories. Gosbank also exercises control over the correct and uniform application by all banks of the USSR of the enforceable acts of USSR Gosbank in questions involving banking work.

The auditing of the work of the institutions of specialized banks is performed by their auditing staff. When necessary, USSR Gosbank has the right to examine specialized banks as well as commercial, joint-stock, cooperative and other credit institutions. USSR Gosbank can receive materials necessary for control and

auditing work from the specialized banks of the USSR and other credit institutions.

Of considerable importance for the normal functioning of the banking system of the USSR is the fact that in accordance with its charter USSR Gosbank carries out the centralized servicing of all banks of the USSR through a unified computing system and trains personnel for the banking system in special Gosbank training institutes. Gosbank presents an annual report on the work of the state system of banks of the USSR and a consolidated balance of banks of the USSR to the USSR Council of Ministers for approval.

Of particular importance in the work of USSR Gosbank is the realization of the principle of ensuring socialist legality as set forth in Article 4 of the USSR Constitution, inasmuch as all relations into which Gosbank enters in carrying out its functions are not only economic but also legal in nature. Four important positions that the charter states on this question should be noted. In the first place, the charter sets forth the legal basis for the work of Gosbank and provides that USSR Gosbank is guided in its work by the laws of the USSR, other decisions of the USSR Supreme Soviet and its Presidium, the ordinances and regulations of the USSR Council of Ministers and its charter. Secondly, USSR Gosbank is obligated to provide for the observance of legislation by all of its own institutions as well as by subordinate enterprises and organizations. Thirdly, USSR Gosbank must generalize the practice of applying legislation in matters within the competence of Gosbank as well as other banks of the USSR. Fourthly, the charter obligates Gosbank to elaborate proposals on the improvement of economic legislation and to present them to the USSR Council of Ministers. To protect Gosbank against the illegitimate influence of the positions of local and departmental interests, the charter specifies that USSR Gosbank and its institutions do not have the right to carry out instructions and requirements that are not in accordance with the existing legislation, the USSR Gosbank Charter and the enforceable acts of USSR Gosbank in the area of the extension of credit, financing and clearing.

The issue of legal documents is one of the most important means by which USSR Gosbank realizes the functions assigned to it. In this way, inherent in Gosbank is the work of establishing standards, which is a clear manifestation of its powers as a state administrative body. In expressing the interests of the state in the area of its credit, emission and clearing work, Gosbank defends these interests through the issue of legal standards. The acts of Gosbank are legally binding. This means that they are issued by Gosbank on the basis and in fulfillment of existing legislation and must be in agreement with it formally as well as in fact. In establishing only the basic positions of the extension of credit and clearing in the country, the legislator grants Gosbank broad rights in the regulation of specific relations in these areas of economic work. The work of Gosbank in establishing standards is

possible both by virtue of compulsory or authorizing standards contained in the laws and decisions of the USSR Council of Ministers as well as in connection with the necessity of issuing rules dictated by its special competence and called upon to ensure the proper performance of the functions assigned to Gosbank. Gosbank has the right to issue enforceable acts determining the rules for the formulation and execution of credit and cash plans, the organization of the monetary turnover, financing, the extension of credit, clearing, the performance of cash operations, accounting and reporting, control of the expenditure of labor-remuneration funds (wage funds) and other basic questions in banking work.

The legal standards contained in the enforceable acts of Gosbank are compulsory not only for specialized and other banks but also for their customers. It should be emphasized that the broad powers of Gosbank in the establishment of standards are inseparably linked with its obligation to observe strictly in its acts the rights and legal interests of these banks as well as of enterprises and organizations as set forth in the laws on enterprises and cooperation in the USSR. On the other hand, the specialized banks of the USSR do not have the right to issue orders, instructions and other acts that contain positions not in accordance with the enforceable acts of USSR Gosbank.

In the scope of their action, all enforceable acts of Gosbank foreseen by its charter can be divided into two groups: acts regulating relations between Gosbank, other banks and their customers, and acts regulating relations within the system of Gosbank. Among the acts of the first group, the charter distinguishes a new form—decrees of USSR Gosbank that incorporate the basic standards aimed at ensuring a unified state policy in the area of the monetary turnover, extension of credit and clearing in the national economy. Other standard directives of Gosbank in these matters can also be in other forms (rules, instructions, letters, etc.). Among the acts of the second group, the primary role belongs to orders and letters of USSR Gosbank. USSR Gosbank systematically carries out work in the further improvement of departmental enforceable acts and their ordering for the purpose of raising the effectiveness of the legal influence on the regulation of credit and clearing relations. Work is being done to review the effective orders and letters of Gosbank with the objective of their unification and classification and to revoke directives that have become obsolete or lost their force. More than 500 standard directives of Gosbank have been revoked in the recent past alone. The significant improvement of the state of Gosbank standards has to do with the issue of a series of new rules on the most important areas of banking work in connection with the laws on the state enterprise and on cooperation in the USSR. One must not, however, consider the work to improve the standard directives of Gosbank to be finished. Much still needs to be done to improve their content, to eliminate excessive regulation and unify standards regulating homogeneous relations, and to improve the style of exposition, etc.

It should be noted that the multifaceted relations of USSR Gosbank with other banks and the relations with enterprises and organizations are harmed by the extreme legal regulation restricting their initiative and enterprise. The content of these relations must not be regulated in the enforceable acts of Gosbank down to the smallest details. The acts issued by Gosbank must make it possible for a bank institution and economic body to choose the very best version of a decision within the limits of the established general legal standards according to the quantitative and qualitative indicators of its work with mutual agreement on a contractual basis. These acts must help link state interests with the cost accounting interests of the economic body and bank and not allow manifestations of petty interference and bureaucratic administration in the process of credit and clearing relations, which is especially important when, in accordance with the Law of the USSR on the State Enterprise (Association), all questions having to do with the planning, issue and paying off of credit to enterprises and organizations are resolved in local bank institutions on the basis of credit contracts determining the reciprocal obligations and economic responsibility of the sides. To ensure harmony in the legal regulation of credit and clearing relations, in the prevention of a multiplicity of banking acts regulating the work of enterprises and organizations, and in avoiding possible contradictions of Gosbank directives, the charter provides that draft enforceable acts of specialized banks that are compulsory for their clients are subject to preliminary approval of USSR Gosbank. Such approval is essential in the case of a directive on this in a decision of the Government of the USSR and also when an act of a specialized bank of the USSR taking into account the special features of its clients specifies a system for servicing credit and clearing that is not foreseen by the rules of USSR Gosbank. The draft enforceable acts of specialized banks involving questions in the work of other banks of the USSR are also subject to Gosbank approval.

The charter pays much attention to the organizational structure of Gosbank. It is foreseen that Gosbank with all of its institutions is a single centralized system on a national scale. Such a structure of Gosbank is an important factor helping in the implementation of a national monetary and credit policy and in the fight against possible manifestations of local tendencies. It must be emphasized that centralization in the organizational structure and management of the Gosbank system is based on democratic principles: it is closely linked with the broad rights of Gosbank institutions, their independence and responsibility.

The organizational structure of USSR Gosbank is determined by the national-state and administrative-territorial organization of the USSR. The new charter provides for the transformation of republic offices of USSR Gosbank in union republics into republic banks of USSR Gosbank and for the transformation of republic (ASSR) offices and oblast (krai) offices into republic, oblast (krai) directorates of USSR Gosbank. This has to do

with the increase in the role and the change in the functions of these subdivisions of Gosbank under the conditions of the restructuring of the banking system and with the shift of their attention from the management of subordinate departments, which moved to specialized banks, to the coordination and regulation of the work of these and other banks in the territory of the republic, krai or oblast. In accordance with the charter, republic banks and local directorates of USSR Gosbank carry out a unified state policy in the area of the monetary turnover, extension of credit, financing, clearing and cash operations and coordinate the work of institutions of specialized and other banks in the corresponding territories and the control over the work of these banks.

The republic banks and directorates of USSR Gosbank have means and property within the limits of the rights granted them by USSR Gosbank and enter into contracts with other organizations on behalf of USSR Gosbank.

The chairmen of the boards of the republic banks of USSR Gosbank and heads of the republic (ASSR), krai, oblast and city directorates of USSR Gosbank are in charge of bank councils that include managers of the corresponding institutions of specialized banks and representatives of republic ministries and departments and ispolkoms of local soviets. The organizational structure of Gosbank allows it to enter into effective contact and businesslike cooperation with republic and local agencies of state authority and administration in the study and resolution of questions in the area of monetary turnover, the extension of credit, financing and clearing in their territory, especially since legislation provides for broad rights and responsibilities of local soviets of people's deputies in the fulfillment of the cash plan and in the resolution of other questions in economic life directly relating to bank functions. The charter does not define the specific powers of institutions of USSR Gosbank. They are established within the competence of Gosbank by the Position on Institutions of USSR Gosbank affirmed by the chairman of the Board of USSR Gosbank. The adoption of the new charter will require a fundamental reworking of the Position on Institutions of USSR Gosbank taking into account their new role, the change in tasks and functions, rights and responsibilities, and the nature of interrelations with the institutions of specialized and other banks.

The principle of democratic centralism is also the basis for the management of USSR Gosbank. The charter states that USSR Gosbank performs its work on the basis of a combination of group and one-man management and in the discussion and resolution of these matters. All actions of USSR Gosbank are guided by the chairman of the Board of USSR Gosbank, who bears personal responsibility for the performance of the tasks assigned to Gosbank. He is appointed by the USSR Supreme Soviet, belongs to the USSR Council of Ministers and has the rights of a minister of the USSR. In addition, he has a number of rights whose realization is linked with the specific nature of banking functions. Thus, within the

limits of the emission result affirmed by the cash plan, the chairman of the Board of Gosbank permits the temporary issue of money into circulation in individual union republics above the emission result provided for them in the cash plan or the reduction of the set target for the withdrawal of money from circulation through the free cash reserves of other union republics or the increase in their targets for the removal of money from circulation. His competence includes the issue of decrees and other enforceable acts aimed at ensuring a uniform state policy in the area of the monetary turnover, extension of credit and clearing in the national economy. In accordance with existing legislation, the chairman of the Board of Gosbank has at his disposal all the property and means of USSR Gosbank, issues powers of attorney, specifies the system for the signing of obligations and the issue of powers of attorney on behalf of USSR Gosbank, and also represents the USSR abroad in all questions in the work of USSR Gosbank. The chairman of the Board of USSR Gosbank establishes, reorganizes and abolishes institutions of USSR Gosbank as well as subordinate enterprises and organizations. The charter also endows him with other rights to ensure the performance of the tasks assigned to Gosbank. The chairman of the Board of USSR Gosbank is in charge of the Board of USSR Gosbank, which also includes deputy chairmen and members of the Board of USSR Gosbank appointed by the USSR Council of Ministers.

The new charter substantially changes the functions of the Board of USSR Gosbank, having entrusted it with the examination of the basic questions in the organization and implementation of a unified state policy in the area of the extension of credit, clearing, the monetary turnover, accounting and reporting, bank control and other questions in the work of the banks of the USSR. Its competence includes the examination of the draft composite credit plans of the USSR, composite cash plans, measures to ensure the fulfillment of these plans, draft decrees, very important orders and other enforceable acts of USSR Gosbank, annual reports and the balance of USSR Gosbank, the annual reports on the work of the state banking system, the composite balance of banks of the USSR and other questions. The Board of USSR Gosplan also examines questions in the internal work of Gosbank as an independent agency of the USSR. As a rule, the decisions of the Board of USSR are implemented through decrees and orders and must be carried out by all Gosbank institutions and—with respect to matters having to do with the work of specialized and other banks—by these banks and their customers.

The republic banks of USSR Gosplan are headed by board chairmen and the directorates of USSR Gosbank are under chiefs appointed by the chairman of the Board of USSR Gosbank.

To ensure one-man and group management in the work of the republic banks of USSR Gosbank and the most complete application of legislation and the decisions of the Board of USSR Gosbank taking into account the

special features of the development of the economy of the republic and the coordination of the work of all banking institutions in its territory, boards are organized in the republic banks of USSR Gosbank made up of a chairman of the board as well as his deputies and members of the board appointed by the chairman of the Board of USSR Gosbank. The functions of the board of the republic bank of USSR Gosbank are determined by the chairman of the Board of USSR Gosbank.

The new charter provides that USSR Gosbank is a legal entity and acts under the principles of full cost accounting and self-financing. Of all central economic bodies, this special feature is inherent only in USSR Gosbank and is explained by the specific nature of its functions and organizational structure. USSR Gosbank with all of its institutions is a single legal entity with all the characteristics foreseen for such organizations by legislation.

The institutions of Gosbank operate on the basis of the unified Charter of USSR Gosbank and the Position on Institutions of USSR Gosbank affirmed by the chairman of the Board of USSR Gosbank and are guided in their own work by the enforceable acts of USSR Gosbank issued by the Board of USSR Gosbank. All institutions of USSR Gosbank are subordinate only to the higher institutions of Gosbank. In this way, each Gosbank institution is an organic part of USSR Gosbank and performs its functions within the limits of the rights granted it by Gosbank. It is precisely through its institutions that Gosbank performs the functions assigned to it by the charter.

The charter provides for the assignment of separate property to USSR Gosbank as a legal entity. Gosbank has a statutory fund of 1.5 billion rubles, which serves in the performance of its obligations, as well as a fixed capital fund made up of the buildings, structures and other property belonging to it. In addition, a reserve fund is established in USSR Gosbank that is intended to cover possible losses and for the first time a fund is being established for foreign exchange deductions. With the permission of the USSR Council of Ministers, USSR Gosbank can have other funds as well. The system of USSR Gosbank is characterized by indivisibility of property. The chairman of the Board of USSR Gosbank manages the property directly as well as through the granting of broad rights in this area to republic banks and other institutions of USSR Gosbank. The new charter provides great opportunities for the further expansion of the powers of republic and local institutions of Gosbank and for raising their responsibility in the management of property.

Gosbank has independent responsibility for property. The state does not have responsibility for the obligations of USSR Gosbank, just as Gosbank does not have responsibility for the obligations of the state, with the exception of cases in which such responsibility is given to it by the Government of the USSR or in which it accepts such responsibility.

As a subject with civil rights and obligations, USSR Gosbank acts on its own behalf. In those cases in which Gosbank institutions enter into legal relations, they exercise rights and obligations not only on their own behalf but also on behalf of USSR Gosbank as a whole. The charter provides that USSR Gosbank acts under the principles of full cost accounting and self-financing as a unified centralized system.

Profit is the main indicator of the cost accounting work of USSR Gosbank. Its basic source is payment from specialized and other banks for credit resources granted by Gosbank. Profit under long-term standards affirmed in the established way is channeled into the state budget of the USSR and is also used to form and replenish the funds of USSR Gosbank. It should be stressed that for the first time the charter provides for the formation of a fund in Gosbank for production and social development and an economic incentive fund. The charter does not preclude the possibility of transferring part of the funds of USSR Gosbank to the direct disposition of republic banks and directorates of USSR Gosbank.

The acceptance of the USSR Gosbank Charter by the Government of the USSR presupposes the issuance of a number of departmental enforceable acts. The new Position on Institutions of USSR Gosbank will be affirmed, positions on the directorates and departments of the central staff have been reworked, a Position on Economic Incentive Funds has been worked out, etc.

The affirmation of the new USSR Gosbank Charter is aimed at improving the work of the banking system of the USSR and at strengthening its influence on the improvement of the efficiency of the economy and must contribute to the accelerated resolution of major and important tasks given the banks by the party and government.

Footnote

1. "Materialy XIX Vsesoyuznoy konferentsii Kommunisticheskoy partii Sovetskogo Soyuza" [Materials of the 19th All-Union CPSU Conference], Moscow, Politizdat, 1988, p 112.

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Credit Policy Examined

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[Article by V.S. Zakharov, deputy chairman of the board of USSR Gosbank: "The Banking System Under the Conditions of Economic Reform"]

[Text] The July (1988) Plenum of the CPSU Central Committee examined the question of the practical work in the realization of the decisions of the 19th All-Union Party Conference, gave a fundamental evaluation of the implementation of perestroika and the course of the

fulfillment of the decisions of the 27th CPSU Congress, and specified the tasks of the current radical economic reform that must be resolved by all links in the national economy, including the banking system.

It was noted at the plenum that the new economic mechanism will be able to work at full force only on the basis of new price relationships and under the conditions of the formation of an effectively operating socialist market, the normalization of finances and the establishment of a ramified and efficient banking system. In proceeding from these guidelines, it is necessary to reconsider what has been done by the banks in the course of perestroika and to get a clear idea of the directions of the work in the future.

The restructuring of the banking system is aimed at providing comprehensive assistance in raising the efficiency of public production. The results of the first 6 months show that some positive changes have taken place in the development of the country's economy. The decline in the rate of growth of production that characterized the preceding five-year plan and 1987 is being overcome. The entire increase in the volume of industrial production came about by raising labor productivity while reducing the number of workers; there was an improvement in the discipline of deliveries and a reduction of the production cost of output.

To influence the achievement of good final results in management, the banking system carried out a number of measures to restructure the mechanism for the advancement of credit and accounting and the introduction of new forms of organizing relations with an enterprise on a contractual basis and to prevent the crediting of losses and prolonged financial shortfalls of associations and enterprises. Beginning in 1988, no more new credit was given for above-plan commodity stocks.

The introduction of the mechanism of crediting and accounting and the execution of a resource-saving credit policy strengthened the tendency toward the normalization of credit relations and the removal of part of the excess means of payment from circulation. The process under which the increase in credit outlays exceeded the increase in the volume of production and the sale of output was stopped. Whereas the average annual rate of increase of credit outlays was 9 percent in the 11th Five-Year Plan and 6.2 percent in 1985, it was already down to 0.9 percent in 1986 and credit outlays declined by 3.3 billion rubles, or 1.1 percent (under comparable conditions), in 1987. In the first 6 months of the current year, short-term credit outlays were reduced by 15.3 billion rubles, or 4.6 percent. As of 1 September 1988, short-term credit outlays were reduced by another 2.2 billion rubles, or 0.7 percent. The structure of credit outlays improved in comparison with last year and the share of credit without material security declined.

Payments discipline improved. As of 1 September 1988, the total amount of defaulted payments was 25.9 billion

rubles, which is 13.2 billion rubles, or 33.9 percent, lower than on 1 September 1988. Defaulted indebtedness on short-term loans declined by 6.1 billion rubles, or 44.3 percent, during this period and amounted to 7.6 billion rubles.

It is important to strengthen and continue this trend, without thereby restricting the satisfaction of the basic loan requirements of enterprises. Because, working under full cost accounting and self-financing, the economic bodies can utilize primarily their own resources and bank credit for production and social development.

At the same time, we cannot be satisfied with the results of the work of the banking system. Money and credit have not yet become effective tools in the restructuring of the work of the national economy and the normalization of the country's financial position.

It is well known that the primary condition for the stability of the monetary turnover is complete balance between solvent demand of the population and the supply of goods and services. Such a task has been set for all union republic but this year the monetary income of the population significantly exceeds the planning estimates, primarily because of wage payments. In the first 6 months, the planned wage fund was exceeded by a large amount. To a considerable extent, this was caused by the new system for the formation of wage funds. The insufficient correlation between the mechanism for raising wages and the final results of production also had an effect and the result was a worsening of the relationship between the increase in the average wage and labor productivity in the country as a whole, in all union republics (with the exception of the Georgian SSR, Kirghiz SSR and Turkmen SSR) and in many ministries in the period January through June of this year compared with 1987.

An analysis of the reasons for exceeding the planned wage fund indicates the need to improve the system for the distribution of funds for wages. In particular, it is necessary to introduce quarterly control by banking institutions of the observance by enterprises and associations of the standard correlations between the increase in labor productivity and average wages as set forth in the plans. And in determining the standard correlation, one must take into account all forms of bonuses, compensation and payments from the wage fund and the economic incentive fund (unified fund for the remuneration of labor).

In the current year, just as in past years, the increase in the monetary income of the population is not being achieved through a corresponding increase in the production of consumer goods and the rate of increase of retail commodity turnover is lagging behind the rate of increase in monetary income of the population. The plan for the retail commodity turnover was not fulfilled in the first 8 months of 1988.

In a number of republics, the plans accepted by enterprises for the production of consumer goods are below the state order: by 11 billion rubles in the RSFSR, by 2.8 billion rubles in the Ukrainian SSR, by 0.4 billion rubles in the Uzbek SSR and Kazakh SSR, and by 0.3 billion rubles in the Georgian SSR.

The planned targets for paid services for the first 8 months were not fulfilled in the Uzbek, Azerbaijan and Armenian republics. The work in the expansion of services by enterprises for which the provision of services is not the main activity is going slowly.

All of this meant that the cash plan for receipts in January-July 1988 was not fulfilled by many republics, including the RSFSR, Ukrainian SSR, Uzbek SSR, Kazakh SSR, Georgian SSR, Azerbaijan SSR, Kirghiz SSR, Armenian SSR and Turkmen SSR, and that as a result major difficulties arose with cash accounts.

Under these conditions, it becomes inadmissible to have a situation in which the measures taken locally are not comprehensive in nature and are often oriented toward the fulfillment of general gross indicators rather than the specific saturation of the market with goods and services needed by the population in volumes necessary to satisfy the solvent demand of the population. It should be noted that a significant number of enterprises have not yet been involved in the production of consumer goods, their quality is improving only slowly, the demand of the population for building materials is not being satisfied, and industrial by-products are poorly utilized. In many cases, they have not organized the production of the simplest goods locally. Some enterprises are continuing to produce output that they cannot sell and that is not in popular demand but nevertheless finds its way into the trade network.

Checks indicate that many banking institutions are in practice resigning themselves to the negative processes going on in the economy of regions and are not making many suggestions for an improvement of economic work, an increase in the production of consumer goods and an expansion of paid services to the population.

In the work on the monetary turnover, it is necessary to proceed from the fact that balance between the monetary income and expenditures of the population is a central task that must be resolved above all locally. In this connection, the republic banks along with ministries and departments should analyze the possibilities for increasing the production of consumer goods and for raising their quality, including by improving the utilization of production capacities, raising the machine shift coefficient, and making fuller use of industrial by-products and local raw materials and other materials.

It is also necessary to examine the course of the construction of facilities for the production of goods and the provision of paid services for the population that are to be put into operation during the current year as well as

the work of enterprises that have been put into service, whose capacities are not being fully utilized, and also to outline measures to guarantee the timely conclusion of construction and to bring the utilization of capacities up to the standard level.

Special attention should be paid to the improvement of the organization of work to control the expenditure of wage funds and to observe standard correlations between the increase in labor productivity and the increase in the average wage. One must systematically analyze the state of the expenditure of wage funds and make proposals to realize above-plan income of the population by increasing the production of goods and the provision of paid services locally.

It is necessary to raise the organizational and coordinating role of the boards and republic banks of Gosbank in the question of improving economic work on the monetary turnover as a whole in the oblast, kray and republic. These questions should be presented for examination by the economic councils established by the ispolkoms of the kray (oblast) soviets of people's deputies.

To a considerable degree, the strengthening of the monetary turnover in the country resulted from the resolution of the problem of the financial normalization of the national economy and the strengthening of the influence of the credit and accounting mechanism on the improvement of the efficiency of the work of enterprises and on the acceleration of scientific-technical progress as well as the saving of resources.

The credit plan for 1988 provides for the reduction of credit outlays for the national economy primarily through the liquidation of loans previously advanced to cover mismanagement and prolonged financial shortfalls of enterprises. For the time being, however, banks are taking the easier path of reducing credit necessary for the normal functioning of enterprises, which has a negative effect on the state of their payments discipline. In the first 6 months of the current year, the reduction of credit covering the shortcomings in the managerial and financial activities of the enterprises amounted to about 2 billion rubles, out of an annual plan of 14.4 billion rubles.

At the same time, the parasitic attitude toward credit has not yet been overcome. Six times in the first half of 1988, for example, the Council of Ministers of the Uzbek SSR and the republic Gosagroprom petitioned for an extension of the terms for the crediting of expenditures and for the allocation of additional ceilings for credit resources.

The councils of ministers of the Belorussian SSR, Kazakh SSR and Lithuanian SSR raised the question of the reduction of the shared participation of own resources of trade organizations in the standard reserves of goods versus the magnitudes foreseen in the estimates for the credit plan of the USSR for 1988.

There continues to be a significant indebtedness in loans for the temporary compensation of a shortfall of own working capital and for unmarketable and idle stocks of commodities in trade. The loan indebtedness for raising the standard of own working capital remains at last year's level.

There are numerous cases in which the enterprises have significant available resources in special funds but the credit contracts do not provide for the early payoff of part of the credit for the increase in the standard for own working capital. The "Bolshevik" Leather Association, worsted goods combine and "Belbumprom" Association in Minsk can serve as examples.

The measures to strengthen payments discipline have not been as successful as they need to be. The credit plan for 1988 provides for the liquidation of defaulted indebtedness on loans that existed in the amount of 8 billion rubles at the beginning of the year. In the first 8 months of the current year, it was reduced by only 0.4 billion rubles, or 4.7 percent. In the past period, there was a consistent increase in reciprocal defaulted indebtedness of enterprises. The most rapid increase in nonpayments of enterprises and organizations occurred in the RSFSR (by a factor of 2.7), Lithuanian SSR (5.8) and Latvian SSR (by a factor of 4).

The restoration of the true function of credit and the raising of its stimulating role are the important preconditions for the financial normalization of the national economy, which was given close attention at the July (1988) Plenum of the CPSU Central Committee. The basis for the financial normalization is the comprehensive mobilization of the reserves within the enterprises, the elimination of unprofitableness, and the raising of profitability on the basis of technical reequipment, the improvement of the organization of production and labor, and the strengthening of contractual discipline. It is necessary to establish order in technical supply, accelerate the turnover of working capital, strengthen the economy campaign, and ensure the strictest order in accounting.

The most acute problem is that of the elimination of the unprofitableness of enterprises in industry and agriculture. In several republics, the work to reduce the number of unprofitable enterprises is still ineffective and there is essentially no decline in the number of such enterprises. In industry, about 13 percent of enterprises are unprofitable. It is 17 percent in the RSFSR and Turkmen SSR and 16 percent in Tadzhikistan and Georgia. In Azerbaijan SSR, the number of actually unprofitable enterprises exceeds the planned number by a factor of 4.9 and the total losses exceed the plan by a factor of 27.

In the first quarter of 1988, according to Gosagroprom of the Georgian SSR, 170 enterprises had actual losses of 17 million rubles instead of the planned profit of 1.8 million rubles.

The financial state of enterprises and organizations was significantly complicated by the existence of an uncompensated shortfall of own working capital from past years. As of 1 April of this year, this shortage for the entire national economy amounted to 21.6 percent of the standard, including 61 billion rubles for Gosagroprom and 2.3 billion rubles for industry. In individual ministries, the sum of this shortage is increasing in the current year: Ministry of Mineral Fertilizer Production, Ministry of Construction of Petroleum and Gas Industry Enterprises, Ministry of Land Reclamation and Water Resources, and Ministry of Agricultural Machine Building.

In Kazakh SSR, the shortage of own working capital increased relative to last year and the beginning of the current year. In this republic, 75 kopecks out of each ruble of own working capital was "eaten away." In the RSFSR, almost half of own working capital of enterprises was spent, it was about 40 percent in Uzbek SSR, and more than 30 percent in Georgian SSR. All of this makes it possible to draw the conclusion that effective measures to eliminate the reasons giving rise to this situation are not being taken either by the enterprises themselves or by the authorities over them.

The reduction of above-plan commodity stocks is a significant reserve for the normalization of finances. In the national economy as a whole, the established target for the maximum level of stocks was fulfilled in the first 6 months. At the same time, 14,700 enterprises exceeded the maximum level of stocks. In Azerbaijan SSR, 35 percent of enterprises exceeded the planned level of stocks. It was 50 percent in Armenian SSR, 45 percent in Uzbek SSR and 37 percent in Tajik SSR.

Many enterprises and organizations have been experiencing financial difficulties over a long period of time and systematically violate payments discipline. But the right granted by the USSR Law on the State Enterprise to declare such enterprises insolvent and to raise the question of their liquidation or reorganization is being utilized by banks only in individual cases.

The intensification of the banks' influence on the normalization of the financial situation and on the strengthening of the monetary turnover in the country requires a significant increase in the level of economic work in the system of Gosbank.

For this purpose, the republic banks and boards of Gosbank together with specialized banks as well as planning, financial and other economic authorities should promptly organize work to review the financial situation of enterprises in the corresponding regions, work out specific well-founded proposals on the consolidation of finances and liquidation of unprofitable enterprises and on the strengthening of payments discipline, and send them to local directive and economic bodies, and those involving questions requiring a decision by

central departments to the Gosbank Board. In the process of this work, special attention should be paid to the measures undertaken by specialized banks to find resources to pay off bank loans used to cover prolonged financial shortfalls, mismanagement and losses of associations and enterprises.

To provide for the centralized planned management of the monetary and credit system and for the carrying out of a unified state credit policy, Gosbank is obligated to coordinate the work of specialized banks in all directions of banking. Coordinating boards and departments have been established to perform this work in the structure of the republic and oblast link of Gosbank.

The actions of the banks are also coordinated through bank councils. There is positive experience in such work in a number of republics and oblasts. An example is the joint development of work plans and other organizational documents coordinated with regional plans, financial and other economic authorities and national control committees.

Thus the Council of Banks in Alma-Ata Oblast is organizing its own work in accordance with the tasks set in the coordinated documents of republic banks, taking into account measures of the coordinating council under the oblast national control committee and the oblast and city ispolkoms of the soviets of people's deputies.

The coordinating work of the Belorussian republic bank of Gosbank is being performed on the basis of the plan for joint economic and control work of republic banks, which provides for interaction in examining the development of monetary and credit relations with sectors of the national economy, for the study of the influence of the new credit and accounting mechanism on the work of enterprises under the conditions of the operation of the Law on the State Enterprise (Association), for participation in the elaboration of a plan for economic and social development of the republic, etc.

The joint study of particular problems by banks makes it possible to open up reserves for raising the efficiency of management and to work out well-founded proposals for the elimination of shortcomings and the improvement of credit relations. Thus, the bank boards of Moscow Oblast jointly analyzed the reasons for the unprofitableness of oblast enterprises and worked out proposals for improving the profitability of production. The data were sent to the oblast national control committee.

Analogous work with financial authorities is being performed in accordance with the decision of the Council of Banks in Gomel Oblast.

One of the forms of interaction by banks was the establishment of small councils and special groups of economists for the intensification of work in primary sections or for the study of individual economic subjects. Such a form of coordination is being utilized actively in

Moscow, Leningrad and Smolensk and in Kalinin and a number of other oblasts as well as in the Tatarskaya ASSR.

Small councils that include department heads and specialists on the corresponding areas of work are examining questions in the methodology of the application of standard documents in the area of credit and economic work, the formulation and execution of credit plans, the processing of statistical information, the coordination of day-to-day reporting work, and the provision of practical help to branch banks. In accordance with the work of such working groups, economic questions having to do with the elimination of unprofitability, the reduction of physical stocks and unmounted equipment, and the resolution of other extremely important questions in the development of regions are being brought to the attention of bank councils. The study materials are reported to local party, soviet and economic authorities.

In Smolensk, the practice of establishing working groups on the monetary turnover with the participation of managers of monetary turnover departments and specialists from oblast bank boards is proving to be correct. In accordance with the results of the analysis of the state of monetary turnover in the oblast, joint proposals are being worked out and presented to the Council of Banks and directive bodies for review.

In Leningrad, they widely practice the joint review and resolution of questions as well as the exchange of experience in day-to-day reporting work. The chief accountant of the city board of Gosbank organizes and holds meetings and seminars with the chief accountants of the boards of specialized banks. Direct contacts are maintained with branches of specialized banks and they visit them for the purpose of providing practical assistance.

At the same time, it must be recognized that they are not ensuring the proper coordination of the actions of specialized banks in a number of republics and oblasts. There are cases of lack of coordination in the actions of banks in resolving matters having to do with common banking tasks and of unwillingness to enter into joint discussion and to come to a single opinion on problems that arise. Some boards of Gosbank show no initiative in the review of practical matters in the bank council and in some instances they take a narrow departmental approach and attempt to impose their own opinion on the specialized banks.

They have not found efficient forms of coordinated management of subordinate links in the banking system, in which all practical matters in the work of banks with the economy are resolved. This work suffers as a result of the overloading with assignments received from all specialized banks.

The weak influence of Gosbank on specialized banks in the area of the advancement of credit has to do largely

with the fact that its institutions were removed from participation in the management of credit resources.

The scattering of credit resources among specialized banks makes their mobile maneuvering in the territory more difficult. The plans of individual banks do not adequately take into account the interests of the region as a whole. The bank councils have a diminished role in questions involving the effective use of credit and their influence on the development of the economy of the republics, krays and oblasts.

The extension of rights and the raising of the responsibility of the councils of ministers of union and autonomous republics and ispolkoms of local soviets of people's deputies in the mobilization of financial resources for the development of production and the comprehensive resolution of social tasks in the region as well as the introduction of a standard method for the formation of the budgets of union and autonomous republics require the restructuring of the existing system for the management of the credit resources of banks. The Gosbank Board worked out proposals on this question. They are aimed at raising the role of Gosbank and bank councils in matters having to do with the management of centralized credit resources and their use in ensuring the development of the economy and the social sphere of regions.

In so doing, consideration is given to the fact that Gosbank concentrates credit resources formed through the state budget of the USSR and funds in accounts and for payment transfers them to other banks for the advancement of credit. In addition, Gosbank establishes a fund for the regulation of credit resources through part of the resources and deposits attracted by the banks.

We are still getting complaints about unsatisfactory accounting—the delay in resources being credited to the accounts of economic bodies and the loss of accounting documents, which has a negative effect on the economic and financial work of enterprises and organizations, especially those working under the conditions of cost accounting and self-financing.

One can present numerous cases of a careless attitude of the operational staff of banking institutions toward accounting and banking documents, which are not sent out in time, and cases in which they are improperly addressed. All of this meant that in the first half of 1988 the Main Computing Center of Gosbank was forced to issue more than 12,500 duplicate tabulated forms to replace those lost.

There was a dramatic worsening of control over the correct and timely write-off and inclusion of funds in the accounts of clients. As a result, the rate of turnover of funds in accounts in the current year in the machine building complex alone was slowed by 4 days compared with last year.

The computing centers of the Georgian, Uzbek, Kirghiz and Azerbaijan republic banks of Gosbank and of the Voronezh, Gorkiy, Rostov, Kharkhov and several other boards of Gosbank are not processing information on time and are delaying the sending of tabular forms, which complicates the uncovering of cases when letters of advice are not received for the inclusion of funds in the accounts of economic bodies.

Corrections are continuously being made in the accounting balance and in the statistical reporting after they are sent to the Main Computing Center of Gosbank. As of 1 July of the current year, the republic banks and boards of the Housing and Social Bank [Zhilsotsbank] had made 17 corrections, those of the Industrial Construction Bank [Promstroybank] had made 83, and those of the Agricultural Industry Bank [Agroprombank] 51.

In the period April through June, the bank institutions sent about 1,500 complaints about different forms of statistical accounting and 330 about balances.

One of the reasons for the unsatisfactory compilation of bank reporting is the lessening of demands on specialized banks and computing centers by individual republic banks and Gosbank boards for the control of their reliability and timeliness and the performance of the instructions and recommendations of the Gosbank Board in these matters.

For example, the Georgian republic bank of Gosbank is not paying the proper attention to questions of the formulation and timely presentation of statistical reports; there are no elaborations of statistical reporting on Form No 722 with respect to bank institutions, balance accounts and credit ciphers. The statistical reporting on nonpayments was compiled with errors and delay.

There are also positive examples. The Ukrainian, Belorussian, Moldavian and Estonian republic specialized banks as well as the Pskov, Kursk and other boards of specialized banks are presenting timely reports of a satisfactory quality. The Gosbank Board generalized the advanced experience of the work of the Belorussian republic bank and brought it to the attention of all other banks and boards of Gosbank. It is a matter of utilizing this experience.

In taking into account the existing situation in this area of work, the republic banks of Gosbank together with the specialized banks must examine at the meetings of bank councils the question of the state of accounting and reporting and work out and implement specific measures to prevent the future violation of the approved deadlines for the presentation of reports and the entering of changes in them after they are presented and to ensure the full conformity of the statistical reporting with the accounting balance.

Of great importance for the successful functioning of the banking system is the raising of the level of the guidance of banking activities on the basis of the expansion of the use of up-to-date organizational and technical means and automated systems for the management of banking operations. Today they have already established a base subsector for the processing of banking information that unites 81 computing centers of Gosbank and Promstroybank, which, together with 19 computing centers of the State Committee for Statistics and other departments, provide information and computing services to banks on the basis of a single plan of accounts, unified software, and a unified system for the coding of bank institutions.

A number of tasks have been put into operation for the automated processing of information in the area of the management of credit and the monetary turnover, accounts, economic analysis and other banking functions.

At the same time, the desired effect has not yet been achieved from automation, inasmuch as the automation process covers only part of the banking system and individual areas of its work. Only 50 percent of bank institutions are utilizing the services of computing centers. More than 90 percent of banking operations with cash are performed manually.

Also still unresolved are such problems as the establishment of systems ensuring the comprehensive automation of decision-making processes.

At the present time, a concept has been worked out for the development of automation and mechanization in the banking system. It provides for basic directions, principles and step-by-step tasks in the development of the automation of banking activities. One of the most important tasks in the development of an automated control system [IASU] for Gosbank is the establishment of a unified computing system for the centralized servicing of banks that is flexibly adaptable to the information requirements of the country's banks. This will make it possible to raise the efficiency and soundness of decisions made in the area of the monetary and credit relations of banks with the national economy.

At the July (1988) Plenum of the CPSU Central Committee, special emphasis was given to the fact that "the restructuring of the work of banks, their conversion to full cost accounting, and the development of a network of commercial banks must contribute to the normalization of the economy."

Today the process of establishing a ramified banking system is already gaining strength. It is dictated by life itself: by the introduction of principles of partnership in relations between subordinate cost accounting links and the development of socialist cooperation.

New bank institutions are being established on the basis of the voluntary association of state enterprises, cooperatives and their alliances for the purpose of the accumulation and rational utilization of the money assets of cooperative members for the development needs of a given sector, subsector, group of enterprises or region.

Gosbank and the Ministry of Finance have been entrusted with reviewing applications and making decisions on the establishment of new banks.

In August 1988, the charters of three cooperative banks in Moscow, Leningrad and Chimkent were registered with the Gosbank Board. Applications were received for the establishment of commercial and cooperative banks in Alma-Ata, Riga, Tartu, Kazan and other cities. An Avtoprombank is being established for the purpose of developing the automobile industry. In Leningrad, they have founded an innovation bank with the task of stimulating the most rapid introduction of scientific developments into practice.

Draft standard charters of commercial and cooperative banks and a system for the organization of new banks in the territory of the USSR have been formulated to settle questions in the organization and functioning of these banks. The bases for the functioning of the banking system are set forth in a USSR Law on Banks, the draft of which is being formulated actively.

All of these documents determine the legal and economic bases of interrelationships between banks and customers as well as between commercial banks and the State Bank.

For the purpose of ensuring the stability of the monetary turnover, the financial position of the newly formed banks, and the protection of the interests of their customers, commercial banks will be guided in their actions by certain economic standards.

We face tasks in the development of the content of these standards and their approval and improvement taking into account specific economic conditions; the elaboration of methods for supervising the actions of commercial banks and the determination of the bases for the information interrelationships between commercial banks and Gosbank as the country's central bank; and the improvement of the mechanism for the regulation of the monetary turnover, the advancement of credit, and accounts under the conditions of the development of a network of commercial banks.

All of these questions require the prompt implementation of methodological studies and the utilization of practical world experience in the banking business and its rational application under the conditions of a planned socialist economy.

The republic banks and Gosbank boards must be actively involved in this work; provide assistance in the establishment of new banks; study, accumulate and

generalize their work practice; and make proposals on the improvement of their management with the help of economic methods. In so doing, it is necessary to bear in mind that in the future the Gosbank Board is proposing giving its republic banks and boards the right to decide questions on the opening of new banks and to control their activities.

It is necessary in the near future to conclude the work in determining the mechanism for the activities of banks under the principles of full cost accounting and self-financing. Profit as the main source of production and social development has been made the basis for the cost accounting work of bank institutions. A mechanism is thereby established that links the cost accounting interests of the bank and economy and precludes the striving of bank institutions to receive income through defaulted loans.

With the introduction of cost accounting into the work of banks, certain changes are being made in the existing system of interest rates. It is proposed that a differentiated payment for credit depending on the time of its use and the payment for deposits of enterprises to banks depending on the time of their custody be made the basis of interest policy.

It is proposed that the interest rates be set somewhat higher than the payment for funds to give enterprises an incentive to accumulate own resources and to make thrifty use of credit.

The active participation of bank institutions as practical and interested partners of associations and enterprises in the introduction of cost accounting is encouraged and it is foreseen that banks will provide paid services in the form of consultation in various economic questions.

The banking system faces serious tasks in ensuring the strict observance of socialist legality. A certain amount of work has been done in recent years to eliminate a multitude of legal acts on the same questions, acts that contain contradictions and unjustified restrictions hindering the initiative of enterprises and organizations.

Since the beginning of 1988, 22 instructions and more than 500 standard letters of Gosbank have been revoked. As of 1 April 1988, 195 enforceable acts issued by Gosbank were in effect. Among them are still too many instructions and circulars that are too detailed and voluminous. The ambiguous wording of a number of norms, which causes them to be interpreted differently when applied, complicates the correct and expeditious use of legal norms regulating the advancement of credit and accounts, diminishes the responsibility of bank specialists for the correctness of decisions, and does not allow them to participate more actively and creatively in the resolution of current economic tasks.

The newly founded cooperative and commercial banks are guided by the instructions of USSR Gosbank in the

area of accounts, the organization of accounting, and reporting. As for credit operations, they adhere to the basic principles of crediting and take into account the credit-worthiness of enterprises and cooperatives and own cost accounting interests. All of this creates the basis for true partnership relations between banks and debtors. Contractual relations in the area of the advancement of credit are being further developed.

It is well known that the USSR Council of Ministers affirmed the new USSR Gosbank Charter. Its acceptance

and the making of all enforceable acts consistent with the demands of the time and the decisions aimed at strengthening the effectiveness of economic reforms must improve the success of the work of bank institutions and the efficiency of the execution of credit policy in close coordination with the monetary turnover and the normalization of finances.

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AGRO-ECONOMICS, POLICY, ORGANIZATION

Accelerated Development of APK Necessary

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[Article by L. Vashchukov, chief of the Statistical Administration of the Agro-Industrial Complex of the USSR State Committee on Statistics, candidate of economic sciences, and V. Nefedov, chief of the Statistical Administration of the Agro-Industrial Complex of the RSFSR State Committee on Statistics, candidate of economic sciences: "To Accelerate the Development of the Agro-Industrial Complex"]

[Text] As a result of the measures for the development of the agro-industrial complex implemented in recent years, an increase in the production of food products was ensured, the stability of agriculture rose somewhat, and the economy of kolkhozes and sovkhoses was strengthened. However, a radical breakthrough in the population's food supply did not occur. At the 19th All-Union CPSU Conference the food problem was named the sorest spot in the life of society.

Statistical data characterizing the final results of APK activity—per-capita consumption of food products—show that, although with respect to some products we are close to the fulfillment of the Food Program, or have even fulfilled it, nevertheless, we lag behind a number of socialist and capitalist countries to a significant extent. For example, in 1987 the per-capita consumption of meat and meat products totaled 64 kg (the USSR Food Program envisages 70 kg for 1990), of milk and dairy products, 341 kg (330-340 kg), of vegetables and melon crops, 100 kg (126-135 kg), and of fruits and berries, 55 kg (66 to 70 kg). At the same time, the per-capita consumption of meat and meat products totaled 104 kg in Hungary, 105 kg in the GDR, and 120 kg in the United States; of milk and dairy products—544 kg in the GDR, 420 kg in Poland, and 440 kg in Finland; of fruits and berries—140 kg in the FRG and 97 kg in the United States. In our country the assortment of food products sold to the population is much narrower.

In recent years the growth of monetary income of the country's population outstripped the increase in agricultural output twofold. This led to an aggravation of the unmet demand for food products, especially for meat and dairy products. Furthermore, virtually all types of confectionery products became scarce. A shortage of sugar, potatoes, vegetables, fruits, and other foodstuffs is felt in trade. On the average, the level of prices on the kolkhoz market is 2.7-fold higher than of state retail prices and of individual products, 5- to 8-fold.

M. S. Gorbachev noted the following in his report at the 19th All-Union CPSU Conference: "In essence, the increase in foodstuffs, which we have attained, to a significant extent has gone into meeting needs connected

with the population growth. This means, comrades, that we need other, higher rates of increase in food resources. We have neither the moral nor the political right to put up with the dragged out solution of the food problem."¹

A profound analysis of the state of affairs in the agro-industrial complex, elaboration of urgent and long-term tasks, concentration of efforts and resources on priority directions in APK development, and elimination of bottlenecks hampering an increase in APK efficiency are of great importance for the most rapid solution of this problem. Improvement in the economic mechanism of management, transition from administrative to economic methods of management, and orientation toward man, toward his interest, independence, initiative, and responsibility are of special significance.

After a long search for the most efficient forms of labor organization and wages a policy of development of leasing relations in the APK is now followed. As of 1 June 1988 a total of 15,000 kolkhozes and sovkhoses (30 percent) used the leasing contract. Under leasing conditions the producer's sense of being the master and his initiative are revived, labor, field, and farm productivity increases sharply, and the antiexpenditure mechanism begins to operate.

There are many difficulties along the path of an extensive and efficient introduction of the leasing contract. Formalism, which discredits the idea and draws us into excessive organization and show, presents the greatest danger for this form of labor organization and wages. The survey of the social and economic aspects of leasing relations conducted in the RSFSR has shown that there are cases when the transfer of a collective to leasing is announced, although, in fact, everything in its work remains as before. Leasing agreements do not always envisage specific measures of responsibility of the parties for a breach of their obligations. In many surveyed collectives they are concluded for 1 year. Interference in the current work of lessees—transfer of equipment, switching over to other jobs, and imposition of the dates of their performance—is allowed. Owing to the unsatisfactory organization of the supply of material and technical resources, low quality of agricultural equipment and its repairs, and lack of the necessary set of working machines, contractual obligations of the farm administration to lessees are violated at times. Many lessees lack organizational-economic and technological knowledge.

The fate of leasing largely depends on how actively kolkhoz and sovkhos specialists join this undertaking. About one-third of the questioned farm specialists see their place directly in leasing collectives, 45 percent believe that they can give the biggest effect as consultants to lessees on a contractual basis, and the rest consider it advisable to leave them in their previous capacity provided there is an improvement in the development and introduction of intensive technologies and control over their fulfillment.

Improvement in economic levers and incentives contributing to an increase in final results in new agro-industrial formations—combines, associations, and firms (121 agro-industrial combines, 66 agro-industrial associations, and 62 agro-firms operated in the country during the first 6 months of 1988)—is of great importance. In these formations the production of produce rises, the assortment of foodstuffs expands, and the profit volume increases at higher rates than throughout the APK, but an improvement in the financial situation of agro-industrial combines and associations often occurs not as a result of a reduction in production costs, but owing to high prices, which are much higher than retail state prices and in a number of cases also exceed commission prices.

There are a number of problems concerning an improvement in mutual relations in the new agro-industrial formations, which is indicated by the questioning of managers and chief specialists of farms and enterprises forming part of combines, which was conducted at RSFSR combines. More than 30 percent of those questioned believe that the establishment of combines did not have a significant effect on the economic and financial life of their subdivisions. One-half of those questioned negatively evaluated the system of combine management, 40 percent were not satisfied with the system of distribution of financial resources and two-thirds, with the distribution of material resources, 70 percent of those questioned pointed to the need to activate the work of combine councils, and two-thirds noted that the fulfillment of contractual obligations among enterprises by the combine council was controlled poorly, which, ultimately, lowered production, technological, and labor discipline.

Cooperatives are developing slowly in the APK. As of 1 July 1988 a total of 1,500 cooperatives for the production of consumer goods and services, of which about one-half began operating, were registered at enterprises and organizations of the USSR Gosagroprom. About 10,000 people are employed at cooperatives, including about 40 percent of them work under conditions of job combination. During the first 6 months of 1988 USSR Gosagroprom cooperatives produced products and provided services worth 19 million rubles, including 10 million rubles (more than 50 percent) directly to the population.

Of the total number of cooperatives 54 percent were engaged in the production of consumer goods, selling products worth 13.5 million rubles during the first 6 months of 1988. A total of 41 percent of the cooperatives provided domestic services for the population worth 5 million rubles.

The problem of improving the economy of APK enterprises is the most acute. Despite the measures taken, the situation remains tense. The debts of kolkhozes and sovkhozes in connection with USSR Agro-Industrial Bank loans continue to grow. At the beginning of 1988

they totaled 145.5 billion rubles throughout the country, which was 4.7 billion rubles more than at the beginning of 1987. At the same time, short-term loans totaled 84.8 billion rubles, including 39.4 billion rubles to kolkhozes, and long-term loans, 60.7 billion rubles, including 49.2 billion rubles to kolkhozes. Deferred credits in the agro-industrial complex account for 64.8 billion rubles, or, on the average, 1.4 million rubles per kolkhoz and 1 million rubles per sovkhoz. In the Kazakh SSR such credits in the turnover of every farm total 2.7 and 2.8 million rubles respectively and in the RSFSR, 2.4 and 1.2 million rubles. Such a situation hampers the introduction of full cost accounting and self-financing, to which all USSR Gosagroprom enterprises were transferred as of 1989.

In 1988 the country's kolkhozes and sovkhozes obtained 34 billion rubles of profit (in 1987, a total of 27.8 billion rubles). At the same time, 2,300 farms (5 percent) ended the year with a loss (in 1987, a total of 6,500 farms, or 13 percent). In the RSFSR, where in 1988 all enterprises operated under new management conditions, 0,900 kolkhozes and sovkhozes (4 percent) incurred losses (in 1987, a total of 4,600 farms, or 19 percent).

Fundamental measures to accelerate scientific and technical progress in the APK are needed. A total of 71 percent of the agricultural workers are employed in manual labor. A total of 64 percent of the cattle stock and 73 percent of the hogs are serviced by means of overall mechanization. In plant growing overall mechanization encompasses only 18 percent of the work on harvesting vegetables, 47 percent, potatoes, and 43 percent, cotton. Owing to this, the APK and the national economy as a whole incur not only vast economic, but also social, expenses. Precisely dissatisfaction with working conditions is the basic reason for the excessive migration of the rural population to cities.

Such a state of affairs is connected with the fact that, as before, a disproportion between power capacities and the number of working machines replacing manual labor persists in agriculture. On the country's kolkhozes and sovkhozes in 1987 in fixed capital there were 153 rubles of value of working machines per 100 rubles of value of power machines. However, on the basis of calculations, on the average, per 100 rubles of value of tractors, according to the optimal ratio, there should be machines for plant growing worth 260 rubles and, including machines for animal husbandry, more than 300 rubles. This correlation has hardly changed during many years.

Our country produces six times more tractors than the United States and three times more than Japan. At the same time, the problem of equipping tractors with the necessary set of working machines has not been solved.

It is necessary to decisively find ways to more rapidly equip agriculture with working implements, especially enterprises with a shortage of manpower. Problems of equipping agriculture with working machines can be

solved to some extent through a certain reduction in the rates of growth of power resources, which are still not used to a full capacity owing to the lack of the necessary set of working implements. In this connection it is possible to recall K. Marx's words to the effect that "a machine, which does not serve in the process of labor, is useless."² The country's kolkhozes and sovkhozes permit an enormous tractor downtime: In 1987 for technical and organizational reasons downtime totaled 80 million tractor-days, which is equivalent to a full operation of more than 0.5 million tractors during 1 year (this greatly exceeds the number of tractors annually delivered to agriculture).

In our opinion, under leasing conditions the problem of improving the equipment of agriculture with modern highly productive machinery, primarily with systems of working machines, is not eliminated, but aggravated. This problem was sharply raised in speeches at the meeting, which was held at the CPSU Central Committee, with managers of kolkhozes, sovkhozes, and other enterprises of the agro-industrial complex applying the leasing contract, workers of leasing collectives, secretaries of rayon party committees, scientists, and specialists of agriculture.

There is no significant acceleration in the development and introduction into production of modern machinery for the APK, or a rise in its technical level. A total of 94 models of new agricultural machines (for animal husbandry and feed production) were developed in the country in 1987, which is 33 less than in 1985 and 7 less than in 1980. Only eight models (8.5 percent) surpassed the level of the best domestic and foreign analogs. The periods of their development are not being shortened. In 1987 the average length from the beginning of drafting of technical documents to the development of models of this machinery was more than 3 years and, as compared with 1980, hardly changed.

Scientific research, design, and technological APK organizations do not operate with sufficient efficiency. In 1987 organizations of the former USSR Ministry of Tractor and Agricultural Machine Building allotted a little more than one-half of all the performed studies for the development of new machinery and organizations of the USSR Gosagroprom, only one-fourth. Many of them are not noted for innovative scientific and technical solutions (less than one-third of the studies contain inventions).

The process of renewing and improving the quality of machinery for agriculture and APK processing sectors is slow. The share of products produced for more than 10 years, that is, obsolete, increased in the 1980's. Whereas in 1980 it comprised 30.5 percent in the former USSR Ministry of Tractor and Agricultural Machine Building, in 1987, a total of 37.8 percent.

APK enterprises permit lags in the fulfillment of many planned assignments for the introduction of new technological processes and the proportion of resource-saving, low-waste, and waste-free technologies among them is negligible.

It is necessary to more actively utilize the possibilities of accelerating scientific and technical progress, which open up before agro-industrial combines and associations in connection with the development of foreign economic ties. Contacts with firms in Yugoslavia, Italy, and the FRG help to carry out new construction and reconstruction of processing enterprises of the Kuban Combine in Krasnodar Kray, the Ramenskoye Combine in Moscow Oblast, and so forth. However, many combines, which have received the right to foreign economic activity, do not use it yet.

The introduction of intensive technologies is the main potential for accelerating the growth of gross output of agricultural crops. In particular, in 1988 the areas sown with grain crops cultivated according to intensive technologies totaled 38.7 million hectares (one-third of their area). This ensured an additional gross output of grain approximately in the volume of 30 million tons. An increase of about 10 quintals was obtained from every hectare of grain crops (without corn) [cultivated] according to intensive technologies.

However, the possibilities for the growth of the yield and increase in the stability of grain farming through the utilization of intensive technologies are by no means fully realized in a number of regions. On many farms the yield on areas allocated for intensive technologies still remains much lower than envisaged. In the Volgo-Vyatska Economic Region in 1987 the yield of winter rye cultivated according to intensive technologies on 10 percent of the farms totaled only 15 quintals and less, whereas the same number of kolkhozes and sovkhozes obtained more than 35 quintals of winter rye per hectare. The low yield in the first group of farms is connected with nonobservance of technological discipline during the performance of the entire set of operations. For example, on the farms of this group only 16 percent of the areas were sown with first-category seeds, a little more than 200 kg of mineral fertilizers per hectare of sown areas were applied to them, less than one-half of the areas (41 percent) received organic fertilizers, and only one-fifth of the crops were treated with herbicides. However, on the farms of the second group the quality of seeds was much better, fertilizer application doses were higher, and chemical plant protection measures were carried out more comprehensively.

The state of affairs in potato growing is not improving. The production of this important crop is of an unstable nature. During the years of the 11th Five-Year Plan and 2 years of the 12th Five-Year Plan gross potato output in the country ranged from 72.1 to 87.2 million tons annually and the yield, from 105 to 137 quintals per hectare.

The sector's seed growing remains in a neglected state, especially in the RSFSR, where in 1987 the area sown with regionalized potato varieties comprised 61 percent (whereas in Belorussia, 93 percent; in Lithuania, 97 percent; in Latvia, 85 percent; in Estonia, 99 percent; in the Ukraine, 81 percent). On farms in Vologda, Ivanovo, Kostroma, Orel, Kirov, Perm, and Novosibirsk oblasts only 27 to 39 percent of the sown areas were occupied with regionalized varieties of this crop, in Altay Kray, 9 percent, and in Tyumen Oblast, 18 percent.

In connection with the insufficient production of potatoes of early-ripening and medium-early varieties (they occupy only 20 percent of their planting area in the country) interruptions in potato trade during summer and early fall periods do not stop and prices on kolkhoz markets remain high.

Ensuring a balance between labor resources and land areas on farms is of great importance. The research conducted by P. Guzhvin after the example of dairy sovkhozes in the nonchernozem zone of the RSFSR³ shows that, as the land "load" per worker increases, gross output per unit of arable land decreases. The grouping presented by us graphically illustrates how problems are aggravated gradually (from group to group): The yield declines, intensive crops capable of giving more output per unit of area are knocked out of circulation, the dairy herd gets thin, and its productivity declines, which makes the value return of land less effective. In this connection major structural shifts in the production of agricultural products are required, the establishment of a system of economic incentives contributing to an intensification of farm specialization and an optimal combination of sectors is of great importance, and the state order should be placed so as not to force farms to be occupied with especially intensive crops, where the necessary manpower reserve is not available for this.

Improvement in the quality of livestock and its genetic potential is an important condition for the development of animal husbandry. V. I. Lenin noted the following: "Along with the question of the quantity of livestock, the question of its *quality* is of no lesser and sometimes even of greater significance."⁴ In particular, an accelerated spread of the combined characters of the Holstein-Friesian cattle breed, which is most adapted for industrial technology and is characterized by an exclusively high genetic potential, is of great importance in dairy husbandry.

The problem of using the potential of animals, which already exists, but only one-half of it is realized, is especially acute. For example, the cows of most breeds available in the country are capable of giving a milk yield of 3,000 to 3,500 kg annually, and of some breeds, 4,000 to 4,500 kg, and the average daily increase in the live weight of cattle can reach 900 to 1,000 grams and of hogs, 550 to 650. Nevertheless, in recent years these figures totaled about 2,500 to 2,700 kg, 480 to 500 grams, and 350 to 360 grams respectively. At the same

time, in 1987 on 7,900 farms (18 percent) the average milk yield per cow totaled less than 2,000 kg and the average daily increase in the live weight of fattening cattle (in 1986) on 7,500 farms (19 percent), less than 300 grams and of hogs on 5,700 farms (23 percent), less than 200 grams.

On many kolkhozes and sovkhozes an increase in the weight standards of livestock is attained not through the intensification of fattening, but through an increase in fattening periods. In recent years the period of cattle raising and fattening was 28 months and of hogs, 14 to 15 months. On kolkhozes and sovkhozes in Ryazan, Orel, Tyumen, and Rostov oblasts and in the Mordovian ASSR, where in 1987 the average daily weight gain in stocker cattle was 290 to 380 grams, the raising and fattening period was 32 to 40 months and of hogs in Kaluga, Tambov, Lipetsk, Volgograd, and Rostov oblasts (with a productivity of 150 to 170 grams), 20 to 23 months.

An analysis shows that insufficient feeding is the main reason for the weak utilization of the potential of animals. In the country in recent years, on the average, about 28 quintals of feed units per standard head of cattle have been expended, whereas on advanced farms and in countries with highly developed animal husbandry, 40 to 45 quintals of feed units.

The level of return on the use of feed is often insufficient in connection with its low quality and imbalance in basic nutrients, primarily protein. About 70 percent of the produced mixed feed is not balanced in nutritiousness and in the content of protein, vitamins, and mineral substances. Less than 10 percent of the required starter mixed feed is produced.

In order to accelerate the solution of the problem of improving the population's supply with meat and meat products, it is necessary to take fundamental measures to develop beef cattle raising in the country and to make it an independent animal husbandry sector. At present the stock of beef breeds makes up 3 percent of the total pedigree cattle and has a tendency toward a reduction. The country's kolkhozes and sovkhozes had the maximum number of beef cows in 1982—a total of 1,270,000 head. At the beginning of 1988 this number decreased by 243,000, totaling 1,027,000 head. In our country there are 27 cows in the dairy herd per cow in the beef herd. In the United States at the beginning of 1987 there were 32.6 million beef cows (76 percent of the total cow stock). There are 3.2 head in the beef herd per head in the dairy herd.

An increase in final APK results is largely held back by the unproportional development of subdivisions, in particular by the lag of processing sectors of industry. Disproportions in the investment policy of the APK were allowed for a long time. Problems concerning the lag of processing sectors of industry were also aggravated

in connection with the fact that the limits of capital investments allocated for the development of these sectors were not utilized fully.

During the 12th Five-Year Plan the volume of resources utilized for the development of processing sectors increased somewhat and the number of obsolete and worn out machinery and equipment decreased.

As noted at the 27th CPSU Congress, a reduction in losses of field and farm products during harvesting, transportation, storage, and processing is an obvious source of replenishment of the food stock. At the same time, an increase in consumption resources can comprise up to 20 percent and for some types of products, up to 30 percent. Expenditures on the elimination of losses are one-half or one-third of those on the additional production of the same volume of output.

There are big meat losses at APK processing industry enterprises. They total about 1 million tons annually, or almost 10 percent of the total meat output in the country.

There is an acute problem connected with an increase in the content of harmful substances, primarily nitrates, in products, especially in vegetables, melon crops, and potatoes. In these matters, obviously, there is not enough glasnost and mass statistics. If we look at the norms of content of nitrates in agricultural products, in our country in some types of products they are 1.5- to 2.5-fold higher than in other countries.

The higher content of nitrates in products is connected with the violation of the mineral fertilizer application technology, nonobservance of the dates and norms of application, and insufficient assessment of the specific features of soil. On kolkhozes and sovkhoses there is a shortage of specialized machinery for spreading mineral fertilizers.

The level of concentration of nitrates in products often is not determined owing to the shortage of appropriate instruments. In practice, there are no instruments for carrying out rapid control.

The introduction of advanced forms of procurements into practice is an important condition for an improvement in the quality of products sold to the state. However, the organization of procurements is being improved slowly. The transition to the direct acceptance of livestock and milk on farms envisaged by the Food Program is carried out poorly. In 1987 a total of 2.2 million tons of livestock and poultry in live weight (11 percent of the total purchase volume) and 32.5 million tons of milk (44 percent) were accepted on the spot. The transition to this advanced form of transfer and acceptance of livestock and milk is largely hindered by the fact that a procedure is in effect, under which livestock transferred to a meat combine continues to belong to the supplier farm and its live weight (for crediting toward

the fulfillment of the purchase plan) is determined after slaughtering through a recalculation on the basis of coefficients, as well as by the insufficient provision of farms with milk cooling equipment.

The advanced and efficient form of fruit and vegetable delivery—"field-store"—has not become widespread. In 1987, bypassing bases and warehouses, state trade organizations received 982,000 tons of potatoes (33 percent of the total volume) and 2.5 million tons of vegetables (35 percent).

Product storage conditions often are unsatisfactory. In particular, in state and cooperative trade at the beginning of 1988 the capacity of vegetable and potato storage facilities was approximately 3 million tons (18 percent) smaller than needed. Trade organizations are forced to violate the norms of loading of vegetable, potato, and fruit storage facilities and to use makeshift premises for the storage of products, which leads to their big losses.

As a result of losses in trade (written off according to acts and released for feed for livestock), in 1987 about 2.9 million tons of potatoes and fruit and vegetable products (8.8 percent of the products received in trade) did not reach the consumer. In terms of state retail prices the losses of these products annually total 800 to 900 million rubles. Such a state of affairs with the preservation of products also leads to an inefficient use of transport facilities: At first poor-quality products are sent from the place of production to the place of consumption and then back to farms for feed for livestock. Calculations show that in the RSFSR alone in 1987 about 40,000 freight railroad cars were used for transporting products, which, ultimately, did not reach the consumer.

Many storage facilities require a significant reequipping. At state trade organizations 82 percent of the capacities for the storage of potatoes and 56 percent, of vegetables do not have cooling and 51 percent of the potato storage facilities and 80 percent of the vegetable storage facilities, active ventilation.

The container method of potato and vegetable storage is being introduced slowly. At bases about 49 percent of the potatoes and 36 percent of the vegetables are stored in containers.

The share of processed potatoes and vegetables remains low. In 1987 a total of 24 percent of the potatoes and 31 percent of the vegetables from the total volume of resources were assigned for industrial processing.

The production of products not conforming to standards continues at USSR Gosagroprom enterprises. In 1987 checks by main administrations of state quality inspection of goods and state trade inspection rejected and lowered the gradings of 4.9 percent of the checked quantity of meat and poultry, 5.0 percent of the cheeses,

3.5 percent of the sugar, 10.2 percent of the canned fruits and vegetables, and 11.3 percent of the nonalcoholic beverages.

The low quality of products often is connected with the fact that advanced technologies are being introduced slowly at food industry enterprises. Membrane technology is not widespread. Advanced methods of refrigerated processing of meat and meat products are not being introduced sufficiently. In the total volume of meat delivery chilled meat makes up about 57 percent throughout the country. The volumes of meat chilled by a single-stage method are growing slowly. The production of quick-frozen potato products, crunchy potato slices and sticks, potato crackers, and a number of other potato products has not been organized.

The shortage of containers and packaging materials has a negative effect on the quality of preservation of products. Industry systematically does not fulfill the plans for the production of basic types of wooden and cardboard-paper containers. Few foodstuffs are sold in small packaging and wrapping.

A set of measures to improve the quality of foodstuffs will have to be implemented. First of all, it is necessary to increase the interest of farms in improving the quality of products sold to the state. For this it is advisable to accept products for crediting toward the fulfillment of the purchase plan in accordance with their quality (fodder grain, the content of protein; potatoes, of starch; sugar beets, of sugar, and so forth). The practice of crediting nonstandard products toward the fulfillment of the purchase plan should be rejected.

The utilization of social reserves is of special importance in the matter of acceleration of APK development. Despite the fact that shifts toward a social restructuring of rural areas have already appeared and there is experience in the establishment of well-planned settlements and modern production and domestic daily life, the accumulated problems are being solved slowly.

The working conditions of agricultural workers, especially women, are being improved insignificantly. For example, about 70 percent of the mechanical milking operators, most of whom are women, owing to the weak mechanization of feed distribution and barn cleaning on farms, are forced to perform labor-intensive jobs in addition to mechanized milking.

Problems of creating the necessary housing and cultural-domestic conditions for agricultural workers are being solved slowly. The level of provision of all proper amenities for available rural state public housing and the housing of home-construction cooperatives is approximately two- to five-fold lower than that of urban housing.

As compared with the beginning of the 1970's, the volume of individual housing construction in the total

commissioning of housing in rural localities was reduced sharply (from 64 percent during the 8th Five-Year Plan to 30 percent during the 11th Five-Year Plan). The insufficient trade in building materials is a deterrent in the construction of well-planned individual homes in rural areas.

In 1987 the orders of trade organizations for splint boards, plywood, cement, and slate were met 79 to 92 percent and for coniferous beams, window and door blocks, facing slabs, and linoleum, 30 to 77 percent. Assignments for the sale of local building materials to the population are not fulfilled systematically.

Rural construction is carried out in an uncoordinated and nonoverall manner. At present almost every fifth central farmstead of kolkhozes and sovkhoses does not have preschool institutions and the plan for putting them into operation in rural areas is not fulfilled systematically. Lags in the construction of clubs and houses of culture are allowed.

The material and technical base of rural club institutions still remains extremely weak. Problems of financing major repairs of cultural institutions located in rural areas remain acute. Meanwhile, 2.4 percent of the buildings of club institutions of the USSR Ministry of Culture are in an emergency state and 14.6 percent need urgent major repairs.

Despite the fact that in recent years the length of motor road has increased markedly, the provision with them still remains low and the quality does not meet modern requirements. Broken-stone and gravel roads represent about one-half of the length of hard-surface roads. They are ruined quickly and require frequent repairs. The provision with roads is especially low in the RSFSR nonchernozem zone.

The level of medical services for the rural population (including ambulance and emergency medical services) lags almost twice behind those for the urban population. Public health institutions do not have much power, are insufficiently staffed with skilled personnel, and are poorly fitted with modern medical equipment. Many of them are at a significant distance from rural settlements. Almost one-half of the rural residents have to turn to medium-level medical personnel for all types of medical aid.

Although the volume of services provided for the rural population has increased in recent years, the need for them is by no means met fully and a significant gap in the level of services for the urban and rural population remains. In 1987 the volume of sales of domestic services in rural areas per resident was 30 percent lower than in urban areas.

All this ultimately leads to a further aggravation of the demographic situation in rural areas and, especially, in

oblasts and autonomous republics of the RSFSR nonchernozem zone, where there is a labor shortage.

The disproportion in the sex-age structure of youth ("the bride problem") is now an acute demographic problem in rural areas. As a result of the increased migration of young women, a numerical superiority of the male population aged 18 to 29 was formed in rural areas. There are 113 men per 100 women of this age. There is an especially unfortunate situation in Komi, Tatar, Mordovian, and Chuvash autonomous republics and in Kursk and Orenburg oblasts (132-138 men per 100 women).

The problem of providing agricultural production with skilled personnel remains important. The gap between the number of graduates of agricultural higher educational institutions, *tekhnikums*, and vocational-technical schools and the number of specialists, machine operators, and other personnel annually reinforcing rural areas is still significant. Many workers, who have acquired agricultural specialties, do not want to work in agriculture. In 1987 a total of 6 percent of the graduates of higher educational institutions and 12 percent of the graduates of secondary specialized educational institutions did not arrive on *kolkhozes* and *sovkhozes* in accordance with the distribution. Almost every fifth young specialist, who began working, left before 1 March 1988.

The regulation of recording and reporting and their reliability are the necessary conditions for an increase in foodstuffs. The statistics of the agro-industrial complex was improved simultaneously with changes in agriculture and in sectors connected with it and sought to uncover the processes and phenomena occurring in them.

During the 1986-1988 period the volume of statistical reporting on agriculture and procurements (cancellation of forms, shortening of periodicity, and elimination of indicators) was reduced in one-half. To study the processes occurring in agriculture, great emphasis will be placed on obtaining the necessary information through investigations by sampling, surveys, and calculations on the basis of economic and mathematical models.

However, *kolkhozes* and *sovkhozes*, in addition to reporting on agriculture, submit very big reports on other sectors (industry, capital construction, material supply, labor, finances, municipal and domestic services, transport, and so forth). The share of these sectors in the total volume of reports submitted by *kolkhozes* and *sovkhozes* exceeded 60 percent by 1988.

Work on regulating reporting in the APK and on reducing and simplifying it continues. Qualitatively new tasks connected with an improvement in recording and reporting under leasing conditions in the APK are now being accomplished. In order to develop fundamentally new methods of initial recording and collection of statistical

information on farms operating under conditions of the leasing contract, the USSR State Committee on Statistics jointly with the USSR Gosagroprom, with the enlistment of scientific institutions, is conducting an experiment in the organization of planning, recording, and reporting.

State statistical bodies have by no means done everything to improve the organization of recording and reporting in the APK, to ensure their reliability, and to eradicate illegal reporting. As checks show, recording at APK enterprises often does not meet modern requirements. At a number of enterprises the arrival and movement of material resources are not taken fully into consideration, the expenditure of supplies and raw materials is controlled poorly, and inflated reporting is encountered. Illegal reporting is being eliminated slowly. In the fight against these negative phenomena state statistical bodies do not use the rights granted them quite fully and do not always take up an active offensive position.

The analysis made shows that the solution of material-technical, economic, and social problems in the APK will make it possible to accelerate its development significantly and on this basis will ensure the creation of a food sufficiency in the country in the shortest period.

Footnotes

1. "Materialy XIX Vsesoyuznoy konferentsii Kommunisticheskoy partii Sovetskogo Soyuz" [Materials of the 19th All-Union Conference of the Communist Party of the Soviet Union], Moscow, Politizdat, 1988, p 8.
2. K. Marx and F. Engels, "Soch." [Works], Vol 23, p 194.
3. See: P. Guzhvin, "Yield of Land and Structure of Investments," *KOMMUNIST*, No 8, 1986, pp 32-33.
4. V. I. Lenin, "Poln. sobr. soch." [Complete Works], Vol 17, p 100.

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Party Secretary Interviewed on Land Questions
18240129a Vilnius SOVETSKAYA LITVA in Russian
19 Jan 89 p 3

[Interview with Stanislovas Gedraytis, secretary of the Central Committee of the Communist Party of Lithuania, by I. Bagdanskis, ELTA correspondent: "The Opinion of Man and Land Is Changing"]

[Text]

[Bagdanskis] First, let us go back to this past year. How do you assess the results achieved last year and what have you learned, managing the economy in the new manner and having begun operating under conditions of cost-accounting and self-financing? I am particularly

interested in the state of affairs on economically weak farms. After all, it is on their progress that, to a considerable extent, the overall situation of the republic's agriculture depends.

[Gedraytis] Under conditions of democratization of society, we have created opportunities for farmer collectives to elect as they see fit the most capable leaders. Thanks to this, the moral climate in many places has improved. In Shilalskiy and certain other rayons there are quite a few examples of extremely large farms being reduced in size at the desire of the farmer collectives; they have been reorganized into kolkhozes that are more convenient to operate and live on. Leaders of republic departments and rayon links have begun using command methods less in working with the farms. The majority of agricultural collectives have worked with all their heart.

It is no coincidence that last year meat production increased by 3 percent, milk production by 2 percent, and egg production by 7 percent. Except for potatoes, plans for sale to the state of all other agricultural product were fulfilled or overfulfilled. Therefore, the economic indicators have also improved. The profit of farms should be nearly 1 billion rubles. Compared to 1987, it increased by almost one-fourth, and the overall profitability of production surpassed it by 30 percent. It is noteworthy that we have no unprofitable farms.

The markups on prices for products sold to the state were increased for the economically weaker farms, and other benefits were also provided. Therefore, we have considerably fewer weak farms now than we did a year ago. However, there still are about 150 such farms. Among the so-called "average" and stronger kolkhozes and sovkhoses there are some that have not disclosed their capabilities for intensifying production. Although unfavorable weather conditions had an adverse effect on some crop yields and although there were other difficulties, the results could have been better. We are also not satisfied with the fact that we have not made progress in growing grain. Things are not good with potato growing. All this is adversely affecting livestock raising. The problems of ecology and improving product quality are pressing in the republic's agriculture. Thus, we must be quite self-critical in evaluating the past economic year, particularly when we see that the results of farms having similar conditions vary greatly and that some of them have been making no headway for years. This is also indicates the slowness in the work of certain party raykoms and party organizations of the farms.

[Bagdanskis] This is already the fourth year of perestroika. There have been quite a few reforms; however, progress has not been achieved everywhere, and farms are facing quite a few difficulties. There is vagueness in the structure of management. People are saying that after the reduction of the republic's agroindustrial apparatus only the signs really changed, but there are just as many employees as there were before this committee was founded....

[Gedraytis] During this time, the management of agriculture has been reorganized simplified at all levels, and the planning of production quotas has become more realistic. Compared to the 11th Five-Year Plan, the annual gross agricultural output during the 3 years of the current 5-year plan has increased by 12 percent, grain production by 15 percent, milk production by 14 percent, meat production (dressed weight) by 16 percent, and egg production by just over one-fifth. However, it must be admitted that production of food products noticeably lags behind the requirements of the population. One reason is that, as before, priority conditions were not created for agriculture—it is not being sufficiently supplied with material and technical resources. With the transition of the agroindustrial system to cost-accounting and self-financing, the state eliminated subsidies for acquiring equipment and is not allocating funds from the budget to economically weak farms for construction of social projects. Additional charges are not being paid, as before, for heavy-weight cattle being sold. True, these funds were used to raise the purchase prices for agricultural products, and we virtually did not suffer from this. Unfortunately, agricultural equipment, building materials, and mixed feed went up in price, which hurt the economy of farms. By the way, with the creation of the country's State Agroindustrial Committee [Gosagroprom], the procedure for distributing material resources also changed: the equipment and building material funds allocated to the republic decreased.

It should be recognized that with the creation of the republic Gosagroprom, we have not been able to ensure effective management of agriculture and the organizations servicing it, although this apparatus was cut by more than half. The committee continues to perform quite a few functions of the previous ministries and departments, and reorganization of its structure has been delayed considerably. I do not doubt that after the CPSU Central Committee Plenum on Agrarian Issues we will have even this year a truly effective, viable system of managing agriculture. I think that it will finally live up to the farmers' expectations.

[Bagdanskis] The working people in the countryside are choosing new forms of economic management. Everyone is approving of this publicly. Unfortunately, when a person needs to resolve an issue in practice, someone puts a spoke in the wheel. Is this not the reason certain collectives of family and lease contract and cooperatives created at the farms have failed? What is the attitude of party organizations and certain party raykoms toward this issue?

[Gedraytis] I want to emphasize that kolkhozes and part of the state farms will continue to remain the basic unit of production. However, an increasing number of farmers are striving to work independently and become true owners of the land and means of production. Industrious people are demonstrating such initiative. In a number of places they are combining into cooperatives, and these

kolkhozes are becoming cooperative unions. These people should be encouraged and supported in every way possible; introducing new, progressive forms of economic management, it is feasible to integrate them with processing enterprises, trade and other organizations. It is also true that they sometimes look for a reason to hamper initiative. It is a pity that we encounter leaders who cannot or do not wish to understand the importance of new forms of economic management, bide their time, and avoid risk.

There are also objective reasons. The existing procedure does not provide everyone the same economic conditions of economic management. Thus, individual family peasant farms and cooperatives still have to purchase equipment, fertilizer, fuel and other material values at retail prices. Granting them state credits is unregulated. People engaged in individual activities do not have legal or social guarantees. I think that these obstacles will soon be eliminated. But the party's position on the above-mentioned issues is clear. All progressive, economically proven forms of economic management will only be encouraged. This must be done without violating the principle of voluntary participation and without imposing decisions from above on anyone. Experience will show which of these forms are most effective and more suitable for our conditions. I want to emphasize that the land and other public property cannot be entrusted to job-switchers and people seeking a quick profit.

[Bagdanskis] We hope that the upcoming CPSU Central Committee Plenum will answer many of the acute questions about the future of the countryside. However, it is now also clear that there must be a more clear-cut watershed between party and economic leadership of agriculture.

[Gedraytis] The reorganized agrarian department of the Party Central Committee now has half the number of people it had at the end of last year. At the beginning of this year, the structure of party raykoms was reorganized—they abandoned the principle of sector leadership. We are concentrating only on resolving major strategic issues, selecting and training personnel, and will give more attention to increasing the role of party organizations and organizations of the agroindustrial complex and farming collectives. We are striving to channel the work of party organizations so that every rural resident can feel that he is the owner of the land, so they fight bureaucratism resolutely and are concerned about accelerating democratization of society. Party workers of all links must be more concerned about regenerating the culture and spiritual values of man, since our expenses are precisely in this. An indifference toward nature, good-neighbor relations, and product quality has firmly taken root. The day is not far off when the functions of state governing bodies will also radically change. I think that the agroindustrial complex should retain jurisdiction over such issues as future planning, economics, science, personnel training, veterinary and technical inspectors, land utilization, regulating relations

with other republics, and expanding foreign ties. It is the function of state bodies is protection of the rights of farmers and other collectives of the agroindustrial complex, ensuring social guarantees, and the pricing policy. There is no need to impose will "from above" on a strong farm, and it is not so simple to do this. Thus, the chairman of the Sotsialistinis Kyalyas Sovkhoz in Plungeskiy Rayon, A. Yarumbauskas, recently refused all services of the rayon agroindustrial association; he was able to resolve issues of organizing production independently without the help of this organization. When there are more farms like this, we will not have to debate how the rayon agroindustrial association or another such management body should be. But we will not be categorical. Who besides the rayon link will engage in development of production forces, formation of state orders, issues of integration, ecology, quality control of products, and all the other disturbing problems? Meanwhile, farms must accomplish independently such tasks of economic activities as agricultural services, construction, agrochemical servicing, seed growing, raising breeding stock, forest management, and application of scientific and technical progress, ensuring the creation and maintenance of the services and groups of specialists necessary for this.

Continuing the thought of possible diversity of economic management, I would like to say that the creation of independent cooperatives on the farms is particularly promising; this is being done at the Kivilyay Kolkhoz in Akmyanskiy Rayon and on certain other farms of the republic. An individual family peasant farm integrated with the kolkhoz or directly with the state may be especially promising in rayons where all the land is not being utilized due to natural conditions. I have in mind Zarasayskiy, Ignalinskiy, Moletskiy, Anikshchyayskiy, and other similar rayons. It is simply necessary to integrate the farms with the processing industry and trade organizations. In Ionishkskiy, Kayshyadorskiy, Alitusskiy, Shvenchenskiy, and other rayons, they have already gone ahead with creating agricultural firms. These are all paths toward economic independence of farms and toward deliverance from leadership from above. The main thing is, in any event, to ensure regeneration of cooperation and an increase in production and to create for people conditions to ensure they have a day off every week and have free time to live and enjoy cultural relaxation.

[Bagdanskis] The Lithuanian Movement for Perestroika is becoming increasingly interested in agrarian issues and has its own concept for rural perestroika. What does this movement propose and how is it ready to assist in resolving agricultural problems?

[Gedraytis] We are gratified that lately quite a number of competent managers of farms, agrarian scientists, and agricultural specialists are showing concern for the future of the republic's rural areas. The rank-and-file farmers are also becoming more active. Some of them are proving their worth in the Lithuanian Movement for

Perestroyka. The agrarian commission of Sajudis has prepared and published in the press the theses of its program. This is an attempt to look at the future of the republic's agriculture in a non-standard way. Recognizing state ownership of land and not denying the role of kolkhozes, the theses do not contradict the basic principles of socialism.

The Republic Soviet of Kolkhozes is also creating concepts of further development of the rural area corresponding to the period of perestroyka. We are receiving many valuable suggestions from prominent scientists, leaders in production, specialists, and rank-and-file kolkhoz workers of the republic. I think we will get together for the upcoming congress of farmers of Lithuania ready to discuss the comprehensively weighed proposals. We also plan to invite to this forum representatives of the rural intelligentsia in order to understand together what to do and how in order to revive the countryside and make sensible suggestions at the upcoming CPSU Central Committee Plenum. But now the main thing is to unite for constructive accomplishment of production tasks and productive labor.

Draft Law on Peasant Farm Enterprises

18240129b Vilnius SOVETSKAYA LITVA in Russian
21 Feb 89 pp 1, 3

[Text of LiSSR Draft Law on Peasant Farm Enterprises of the Lithuanian SSR]

[Text] This law determines the economic, social, and legal conditions of activities of peasant farms in the Lithuanian SSR.

The purpose of the law is to see that the peasant farm enterprise, which helps to satisfy the growing demands of the national economy and the population for food products, develops simultaneously with the development of the socialized farm as the main producer of agricultural products and raw materials.

The law establishes the basic principles of development of peasant farms and the relations of these farms with the state, guarantees peasant farms the right of free choice of forms of economic activities, and encourages their initiative.

The law stimulates further development of the political and economic system of the Lithuanian SSR and ensures social justice and social equality of the peasant farm in the right to labor and personal incomes.

Article 1. The Peasant Farm in the System of Socialist Economic Management.

1. Peasant farms are created to produce high-quality plant and livestock products in order more fully to provide the population with food and industry with agricultural raw materials.

2. The peasant farm is an economically and legally independent unit in production of agricultural products and raw materials, voluntarily determining the direction of its activities and the volume and structure of production.

3. Peasant farms, together with state and cooperative agricultural enterprises, comprise a unified link of the agroindustrial complex and, as a rule, develop their production activities in close interrelation with them.

4. State bodies ensure that the rights of peasant farms, their production independence and initiative are not infringed upon.

Article 2. Legislation on Peasant Farms.

The creation of peasant farms and their activities are regulated by this law and other legislative acts of the Lithuanian SSR.

Article 3. Creation of Peasant Farms.

Peasant farms are organized exclusively on a voluntary basis.

A peasant farm is considered created from the moment of granting it land in the established procedure and issuing of a state document on the right to use the land.

Article 4. Representation of the Peasant Farm.

The interests of the peasant farm are represented by the individual in whose name the state document for use of the land is drawn up. This individual represents the farm in relations with state bodies and other institutions and organizations, concludes contracts, and accomplishes other actions in the interests of the peasant farm.

Article 5. Granting Land to Peasant Farms.

1. The executive committees of rayon soviets of people's deputies grant land to citizens wishing to have a peasant farm.

Land for this purpose is granted from the state reserve, from the state forest reserve, and from the lands of kolkhozes, sovkhozes, and other enterprises and organizations.

Sections of land being used by kolkhozes are allotted only with consent of a general meeting of kolkhoz members or a meeting of authorized agents; sections of land from sovkhozes, kolkhozes, and other state farms and cooperative and public enterprises are allotted with consent of the land-users.

2. Land, as the exclusive property of the state, is granted to a peasant farm for indefinite use and free of charge.

3. The size of the land section granted to a peasant farm is determined by the number of family members, the direction of production activities, and the specific possibilities of efficient utilization of the land.

When resolving the issue of organizing the peasant farm, consideration must be given, above all, to the possibilities of using idle farmsteads that are not suitable for conducting socialized farming of land sections, lands of the state forest reserve, and other lands.

4. A citizen wishing to create a peasant farm submits an application to the executive committee of the Soviet of People's Deputies of that rayon in which he wants to receive a land section, indicating the location of the section, its size, the directions of proposed production activities, and the qualification training of family members.

5. Issues of reviewing citizens' applications and evaluating the land and the land-utilization system are resolved in the procedure established by the Lithuanian SSR Council of Ministers.

Article 6. Peasant Farm Land Use.

1. In the event of the death of the owner of the peasant farm, one of his heirs receives the right to use the land section granted this farm, and the executive committee of the Rayon Soviet of People's Deputies draws up a state document for the right to use the land in his name.

The land section granted the peasant farm is not divided up among the heirs.

2. Disputes between heirs concerning the right to the peasant farm are settled by the court, taking into account the each heir's contribution to the farm, as well as their real possibilities for running the farm (ability to work, professional training, and other circumstances).

3. The owner of a peasant farm can refuse the right to use the land sector allotted him. In this case, he can indicate a successor from among family members, who is given preference to use this land section with the state document for the right to use the land drawn up in his name.

4. The right of land-utilization of a peasant farm is terminated in cases and procedure prescribed by state legislation.

Article 7. Labor on a Peasant Farm.

1. The activities of a peasant farm are based on the personal labor of peasants.

2. Labor rights of the members of the peasant farm are prescribed by this law.

3. All family members of the peasant farm working full-time on the farm are granted social security with

their consent. In this case, they enjoy the right to social security benefits and pensions.

Family members of the peasant farm are considered to be the spouse, children, parents, and other relatives working on the farm who are indicated on the application and legally registered.

4. Family members of a peasant farm have the right to determine independently the size of the pension within limits established by legislation. The peasant farm makes social security contributions to the rayon trade union committee depending on the size of the proposed pension and taking into account the number of working family members.

[5.] The norms of social security contributions are established by the Lithuanian SSR Council of Ministers jointly with the Lithuanian Republic Trade Union Council. Work on the peasant farm is counted towards the total and continuous length of service based on documents confirming payment of social security contributions.

6. The period of service at the peasant farm is confirmed by the work book issued by the rayon trade union committee which contains information on payment of social security contributions by each family member.

The form of the work book of individuals working on the peasant farm and the procedure for filling it out are prescribed by the Lithuanian SSR Council of Ministers jointly with the Lithuanian Republic Trade Union Council.

7. A pension of the earlier established amount is reserved for the members of the peasant farm.

8. The peasant farm ensures labor safety, observance of equipment safety, production hygiene, and sanitation, guided by the rules and standards of labor safety established for state and cooperative enterprises.

Article 8. Property of the Peasant Farm.

1. The property of the peasant farm includes: buildings, structures, tractors, motor vehicles, equipment, other agricultural equipment and spare parts for it, productive and working livestock, products produced, resources and other property necessary for the farm's activities.

2. A couple living together and their minor children can have only one peasant farm.

3. Property indicated in Paragraph 1 of Article 8 can be the personal property of one of the couple or can be owned jointly. No one has the right to use the peasant farm for obtaining illegal income or for other purposes prohibited by law.

4. When liquidating a peasant farm, the property is divided in kind after making wage payments and fulfilling obligations to the budget, the bank, and other creditors. Disputes over the division of property are settled by the court.

Article 9. Legal Protection of a Peasant Farm.

1. The property of a peasant farm is inviolable; it is under the protection of the state and is protected by law.

Only the peasant farm owner himself has the right to dispose of property.

The property of a peasant farm can be confiscated only by decision of the court in a procedure established by legislation.

2. The peasant farm is responsible for property liabilities, for which a penalty can be imposed under existing legislation.

The state is not responsible for the liabilities of the peasant farm.

The property relations of peasants on the peasant farm are established by legislation of the Lithuanian SSR.

Article 10. Inheritance of Peasant Farm Property.

Peasant farm property is inherited by individuals according to the law and last will and testament.

The heir of peasant farm property is exempt from paying the state duty prescribed for issuance of a certificate on the right to the inheritance if he pledges to continue the activities of this farm.

Article 11. Use of Natural Resources by a Peasant Farm.

1. The peasant farm utilizes the land in the procedure established by legislation of the Lithuanian SSR.

The peasant farm is obligated to ensure efficient use of the land, constantly show concern for increasing its productivity, make thrifty use of it for those purposes for which it has been granted, protect the environment from pollution and other harmful effects, and organize production using low-waste and waste-free methods.

2. The peasant farm carries out measures to protect the environment using its own resources and credits. These measures must compensate for the adverse effects of the production activities on the environment.

3. The peasant farm is obligated to compensate for damage caused by it as a result of violating environmental protection laws.

4. The activities of a peasant farm flagrantly violating the established routine for using natural resources can be

suspended in a manner provided by legislation of the Lithuanian SSR in individual spheres of production activities; if the violations are not corrected, the activities can be terminated.

Article 12. Sale of Peasant Farm Products and Their Price.

The peasant farm sells the products it produces at its own discretion. It can conclude long-term contracts with enterprises and organizations that purchase and process agricultural products or with kolkhozes, sovkhozes, and other state farms in accordance with the procedure and prices established for these farms.

Article 13. Crediting and Financing Peasant Farm Activities.

1. The peasant farm has the right to use at prescribed terms the bank credits needed to increase production of agricultural products, improve their quality, and to make more efficient use of the land, and natural and material resources.

The peasant farm has the right to open accounts at banking institutions for conducting money transactions and also for keeping money. To open an account, the peasant farm submits to the banking institution an application, a copy of the state document on the right to land utilization, and also a signature card certified in the prescribed manner.

2. The banks pay the peasant farm interest for use of the temporarily free funds in the accounts.

3. The peasant farm makes payments on its obligations with other enterprises and organizations, and also with citizens—clearing through credit institutions or cash payments without restrictions on the amount of payment.

The peasant farm makes all payments, including payments to the budget, in chronological sequence of receiving payment documents.

4. Money can be charged off the peasant farm's account only at its direction, or by decision of the court.

5. Banking institutions can grant a peasant farm long-term and short-term loans based on a contract.

6. The peasant farm bears full responsibility for observing credit agreements and payment discipline.

In the event of late repayment of a loan by the peasant farm, the banking institutions recover the loan in the manner prescribed by law.

7. Banking institutions grant a peasant farm short-term loans for a term of not more than 12 months.

8. State and cooperative organizations have the right to extend credit to peasant farms in accordance with contracts concluded with them.

Article 14. Taxation on a Peasant Farm.

The peasant farm contributes to formation of the state budget by paying taxes in the manner prescribed by the Lithuanian SSR Council of Ministers.

The executive committees of rayon soviets of people's deputies have the right during the first 3 years to grant a peasant farm privileges on payment of taxes or to exempt it from payments to the budget.

In order to provide incentives for production of individual agricultural products, the executive committees of rayon soviets of people's deputies can grant a peasant farm additional tax privileges.

Article 15. State Insurance of the Property of a Peasant Farm.

The property of a peasant farm is insured, and damage caused by natural disasters or other unforeseen circumstances is compensated in the prescribed manner. The property of a peasant farm can also be insured under voluntary insurance.

Article 16. Material and Technical Support of a Peasant Farm.

A peasant farm acquires the valuables it needs to conduct activities from state and cooperative enterprises and organizations, at kolkhoz markets and from the population, and also at state and cooperative trade institutions.

Peasant farms have the right to acquire:

—tractors, agricultural machinery and equipment, trucks and other transport vehicles and spare parts for them, mineral fertilizers, concentrated feed, building materials, fuel and lubricants, certified seed, nursery plants and seedlings, and also other products needed for economic activities in prescribed manner;

—tractors, trucks, and agricultural machinery and equipment belonging to the peasant farm are repaired and maintained by enterprises and organizations of the agroindustrial complex at existing prices and rates.

Article 17. Interrelations of a Peasant Farm with Enterprises, Organizations, and Citizens.

1. In accordance with provisions of this law, a peasant farm can conclude any contracts with enterprises, organizations, and citizens for the repair and maintenance of agricultural equipment, harvest of crops, and other aspects of its economic activities.

2. A peasant farm has the right to acquire, exchange, lease, or borrow available and unused structures, machinery and equipment, transport vehicles, and other property belonging to state and cooperative enterprises and organizations or citizens.

3. The peasant farm makes payments for leasing buildings and facilities as agreed upon by the parties, not to exceed the lease rates established for kolkhozes by decision of the Lithuanian SSR Council of Ministers; payments for machinery are at contract prices. The peasant farm can acquire used buildings, tractors, self-propelled machinery, and hitched implements at their residual value.

4. A peasant farm's production interrelations with state, cooperative, and other public enterprises and organizations, citizens, and also with suppliers of material and technical resources are established and all economic transactions are carried out on a contractual basis.

If contract obligations are not observed, the peasant farm refunds the damages suffered by the consumers of his products in the prescribed manner.

State, cooperative, and other public enterprises and organizations or citizens who have not fulfilled their contract obligations to the peasant farm, refunds the damages caused it in the prescribed manner.

Concluding contracts, including choosing contract partners, is the competence of the peasant farm. Any interference by state and cooperative management bodies and their officials in the contract relations between the peasant farm and state and cooperative enterprises and organizations or citizens is prohibited.

5. A peasant farm has the right to conclude contracts for leasing property with state, cooperative, and other public enterprises, institutions, and organizations or citizens. With the consent of the above-mentioned enterprises, institutions, and organizations or citizens leasing property to the peasant farm, it can acquire this property.

6. A peasant farm can use in the prescribed manner social facilities belonging to state and cooperative enterprises, institutions, and organizations.

7. Improvement of land allotted for a peasant farm, construction of roads to it, and installation of electric power and communication lines are accomplished by specialized state organizations at the expense of state budget funds.

The peasant farm is exempt from paying taxes on depreciation of the listed facilities.

8. The peasant farm owner and his family members may, if necessary, walk, drive, and drive livestock across sections of other land-users with their consent.

Article 18. Joining of Peasant Farms into Cooperatives.

1. Peasant farms may voluntarily join on a contractual basis into cooperatives, societies, and unions that will help them resolve production, economic, and social problems and also will represent them and protect their interests.

2. A peasant farm may develop production activities in close relationship with a socialized farm, primarily in resolving problems of veterinary, agrochemical, and material and technical services, sale of products, and other areas.

3. Kolkhozes, sovkhozes, and other state farms, and other agricultural cooperative and state enterprises and organizations must create all the necessary conditions so peasant farms can integrate and cooperate with them in order to resolve production, economic, and social issues.

4. A peasant farm has the right to leave freely the above-mentioned cooperatives, societies, and unions on terms specified by the contracts.

Individual Versus Local Authorities on Land Use

Land Use Problems Cited

18240055 Moscow SELSKAYA NOV in Russian No 4,
Apr 88 p 9

[Letter to the editor with editorial commentary: "Land Near the House"]

[Text] Greetings, respected editors! Sergey Levin is writing to you. I am 30 years old and live with my family in a village, although it is called a settlement, in the farm center of Klyazminskiy Sovkhoz.

I am writing to you for advice.

In the settlement the houses are two-storied with 18 apartments in each. There are sheds near some of the houses. The houses (there are twelve of them) were all rented at different times and the residents, in order to have their own plot, have turned the earth below their windows in beds and have made a garden.

I also have this kind of garden. How much effort it took! How many rocks were removed from the soil! But this is all in the past and today there is another problem.

I decided to build a hotbed for tomatoes because it is difficult to raise them in the open. It took me 2 years to build the hotbed and I used it only 1 year. Last spring the chairman of the village soviet (who himself lives in the city) decided to tear down all hotbeds. My garden is located in the back of the house and the hotbed cannot be seen at all from the road. And if we are going to talk openly—a little beyond the fence is a dump with all kinds of garbage. It turns out that the dump does not ruin the appearance of the village. But my hotbed, according

to the words of the chairman of the village soviet, does ruin its appearance. In the spring he distributed flyers forewarning us about the removal of the hotbeds in the fall—otherwise, he said, measures would be taken including the withdrawal of gardens on the basis of illegal seizure of land.

He does not want to levy a tax against me so that the land would be mine to use privately. Yet in the garden there are only two hundredths of land. They would allocate land for us for hotbeds several kilometers from the house—but this is like having a summer house! We do not want to take that land because there is no free time to walk there to cultivate it. Moreover, we are keeping two goats and in the summertime we fatten a young bull. It takes time to work with them. So the summer house does not suit us, and what do we need it for anyway since we are already in the country? A summer house is nice to spend free time in, but we country people have no spare time. My wife also works in the sovkhov almost without any days off. So what are we supposed to do—walk several kilometers for one carrot?

And in that case what should we do with the sheds that have been built near our houses (and we cannot do without them)—after all, they also "spoil appearances." Also, the residents (almost all of them) have added on to the sheds. Is this also an "unauthorized seizure of land"?

However, the chairman of the village soviet does not want to hear about this, but keeps threatening to do away with my garden if I do not remove the hotbed.

Dear editors, perhaps you can tell me what to do?

After all, your journal discussed the fact that the manager himself has a right to decide how much and what to plant in his garden if he is its legal master. But the village soviet does not want to allocate this land to me. It seems that it is more advantageous to it to destroy all my work.

Maybe you can shed some light on my letter?

[Signed] S. Levin, settlement of Novo-Apnino, Petushinskiy Rayon, Vladimir Oblast.

[From the editors] Sergey Levin raises a topical and urgent question. In essence the subject is the sad consequence of the building up of our villages with apartment houses, which was often done without a consideration of the needs and special characteristics of the private plot. Thus, land near the house which from time immemorial has fed peasant families has been transformed into a "forbidden zone" for the private enterprise.

In publishing this letter, the editors hope that it will once again focus the attention of local soviets, enterprise administrations, agroprom [agro-industrial association] organs and building organizations on the problem of the efficient utilization of land near houses, or more precisely—near apartment houses. Of course the problem

must be dealt with based on specific conditions but certainly from the position of common sense and the interests of village residents.

Follow-up Commentary

18240055 Moscow SELSKAYA NOV in Russian No 2,
Feb 89 p 11

[Response by A. Kotov, ispolkom chairman of Petushinskiy Rayon Soviet of Workers' Deputies, Vladimir Oblast; N. V. Averyanov, deputy chairman of Gosagroprom [State Agro-Industrial Committee] of the RSFSR Non-Chernozem Zone; and G. Kazantsev, acting director of the Administration for Planning and Construction of Village Populated Areas of Goskomarkhitektura [State Architectural Committee], USSR Gosstroy [All-Russian Central State Construction Office]: "Land Near the House"]

[Text] "Land Near the House" was the title of a letter written by S. Levin of Vladimir Oblast and published in the fourth issue of the journal in 1988. It touched on problems bothering not only the author of this letter but many residents of apartment houses who do not have full-value private plots.

The facts presented in the note "Land Near the House" were true, reports A. Kotov, ispolkom chairman of the Petushinskiy Rayon Soviet of Workers' Deputies, Vladimir Oblast. It was actually suggested to S. F. Levin that he tear down his hotbed, which he had built near the 18-apartment building in opposition to the meeting of citizens of this village (they decided to leave a place to plant green vegetables near the apartment houses but not to build other structures—hothouses, hotbeds).

Levin built a hotbed 3.5 meters tall for old materials and surrounded it with a fence of rusty mesh, which resulted in complaints by residents living in that house. Moreover, the area he used for the hotbed was earmarked in the general building plan as a road leading to an 18-apartment building that was under construction. This is why before the building of the road Levin was advised to take down his hotbed or to move it somewhere else (100 meters from the house). A plot in the collective garden 1.5 kilometers from the village of Annino was offered to him. He refused both.

N. V. Averyanov, deputy chairman of Gosagroprom of the RSFSR Non-Chernozem Zone, did not begin to look into the essence of the problem and preferred to place the responsibility for correcting the errors in construction and land use on...a citizens' meeting. He writes that he feel the best way to decide disputes similar to the one raised by author S. Levin is in a meeting of citizens in which the interests of not only individuals but of all the residents of the settlement can be taken into account.

And that is all. Meanwhile nearby another unpleasant 18-apartment building is being constructed and the road to it is crowding even those sorry garden rows near the

house where Levin and others live. From what selection of variants can the citizens' meeting select?! Whether in the village of Annino, or in another similar village...

Also responding to the journal was the acting director of the Administration for Planning and Construction of Village Populated Areas of Goskomarkhitektura, USSR Gosstroy, G. Kazantsev. He states that the author of the letter to the editor does not mention the year in which the apartment building in which he lives was built. But we can assume that the house was built before the early 1980's, when the development of central sovkhoz farmsteads consisted generally of 2-3 story sectional houses. In accordance with existing building norms and regulations "the entire area of land for private plots for the residents of sectional houses is allocated outside the boundaries of the developed zone."

At the present time there are cases in which the residents of sectional houses, similarly to the author of the letter, attempt to organize the distribution of territory adjacent to multi-dwelling structures for use as vegetable gardens. However, as the editorial commentary correctly states, "the efficient use of land near an apartment house must be dealt with based on specific conditions and on the interests of village residents." Supporting this, the administration adds: and also on the basis of the corresponding building plans.

As for the building of the hotbed, which according to the author took 2 years, it should be noted that point 2, section 46 of the building code and regulations, "Apartment Houses" (SNiP [Construction Norms and Regulations] 2.08.01-85) does not list the construction of hothouses among economic buildings and facilities near sectional houses in village settlements. This is why decisions about the possibility of building them are made by soviets of people's deputies based on local conditions.

What can we say about this response? Old principles have been redesigned. While verifying that the building of two and three-storied sectional houses was carried out in the village "up until the beginning of the 1980's" (as if these are the sins of youth) here without a hint of embarrassment Comrade Kazantsev assures us that in accordance with building norms and regulations in effect today, "the entire area of land for private plots for residents of sectional houses is allocated outside the boundaries of the developed zone"!

Comrade Kazantsev's attempt to combine that which cannot be combined is no less unnatural—our proposal about the efficient use of land near an apartment house with his dogmatic "...on the basis of corresponding building plans."

Corresponding to what? To the problem that has developed regarding families being able to supply themselves with products? To their material interests? To the food program? This is precisely the problem—that the plans,

building norms and regulations that we are speaking about have not corresponded to anything for a long time. But in contrast to common sense they remain in effect.

By not leaving the land near the building, planners transfer the solution to the problem of hotbeds and hothouses to local soviets. That's convenient! But where will the soviets find land for hotbeds and gardens near buildings that were built according to plans that were unsuitable for a village? And we would like to know when the development of planning of village territory, which leaves the country resident without his basic advantages—living in a separate house and having the use of enough land for carrying on with his private enterprise—will end?

The response of Goskomarkhitektura is discouraging and troubling. When will gosstroy ideas become focused on "village ways"?

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Letters Continue Price-Reform Debate

Scholar Answers Readers' Letters

18240052 Moscow SELSKAYA NOV in Russian
No 3, Mar 88 pp 14-16

[Materials assembled by Yu. Govorukhin under the rubric "SN Mail": "We Are Addressing the Realities"]

[Text] We remind our readers that our 11th issue of 1986 printed an article by Doctor of Economic Sciences G. Shmelev titled "What Is Good and What Is Bad?" It concerned in particular the necessity of bringing retail prices for food products into line with expenditures. The editors have received a great deal of mail in reply, and the influx of letters is growing in connection with the projected price reforms.

We have selected the most typical questions of readers and asked that Candidate of Economic Sciences D.F. Shavishvili, a sector chief at the NII [Scientific Research Institute] for Price Formation, reply to them.

"Why were food prices reduced several times at the beginning of the 1950s, under Stalin and then later, while in recent years that is not being done, moreover I am hearing discussions on all sides that prices must be raised!"—V. Smurov, Novosibirsk Oblast.

I begin my answer with the fact that under Stalin, in the postwar period, we just came down a little from a very high level. Prices in the country had been creeping upward for decades. Their overall level in state and cooperative trade from 1928 through 1940 went up by several times. By 1947, the time of the monetary reform, we had had a tripling of prices versus prewar levels.

Now on this monetary reform itself. What aims was it pursuing? First and foremost to stabilize the country's monetary system under the conditions of the transition of the national economy to a peacetime footing. It was essential to take out of circulation a large quantity of counterfeit money that had been printed by the fascists during the war years in trying to undermine our economy. It was also necessary to "collect" monetary resources from a certain portion of the population that had grown fat by dishonest means, chiefly through speculation in foodstuffs and industrial goods. They also had to set about devaluing the monetary deposits of the population in the savings banks. The state was moreover unable to pay the population its debt on domestic loans, which surpassed 38 billion rubles (in today's terms).

As a result of the reforms, the state obtained a considerable amount of funds, part of which were utilized for the subsequent reductions in retail prices. But even that money, extracted after essential but harsh measures, was not enough to balance the budget. Prices were reduced nonetheless. Where to get these funds? And here it must be stated with all certainty that improvements in the material situation of urban residents was provided at the expense of the kolkhoz peasantry. At that time, procurement prices for agricultural output were simply miserly, and the kolkhozes and sovkhoses were operating at losses and often could not cover their expenditures. The principle of material vested interest was not observed, people were working for workday units that did not provide the essential monetary or in-kind payments. It was not for nothing that the people called them "sticks." Those working on the land felt no relief from the price reductions, because there was practically nothing in the village: no foodstuffs, no industrial goods.

This policy—resolve all economic tasks at the expense of the peasantry, which at the time comprised the majority of the country's population—had begun as early as the times of forced collectivization and continued up to the September (1953) Plenum of the CPSU Central Committee, at which important decisions were made for the first time to provide labor incentives in agriculture and raise procurement prices for agricultural output. The recidivists of the harsh policy in relation to the village and the diminishment of its interests, however, made themselves felt in the future as well. For example, the prices for machinery and other material and technical equipment produced by industry for the villages rose much faster than prices for agricultural output. After the March (1965) Plenum of the CPSU Central Committee, it was even necessary to convert to a system of subsidies which envisaged increased prices for equipment and supposedly favorable prices for agriculture. Even today there exist two prices for agricultural equipment and spare parts, which is leading to the separation of procurement prices from social expenditures on the production of agricultural output.

The village feels the consequences of these distortions even today—economic, social and moral. And only in the course of restructuring are we beginning decisively to eliminate them.

The price reductions of the 1950s thus had political significance but were in no way corroborated economically. Moreover, even that which was given to the urban population in the form of price reductions was “neutralized” by degrees by the placement of new contributions for domestic loans of a total of more than 20 billion rubles. I would note that the economy from the retail price reductions totaled 31.5 billion rubles over 1947-54. That is, the new contributions “ate up” two thirds of the economy. People from the older generation recall that signing up for the state loans was implemented in far from voluntary fashion.

Much is being said and written of late that spending on the production of meat and milk on kolkhozes and sovkhoses is higher than the prices they are sold at in state trade. Therefore, they say, retail prices will have to be raised. Is there really no other way? Why not try lower spending, for example?”—V. Sivtsov, Novgorod Oblast.

“I can understand the need for a conjuncture of food prices with the cost of output: the state is spending millions on subsidies, distortions must be eliminated in order to create conditions for the efficient development of the economy. But need it be done only at our expense—the consumers?”—N. Skripka, Primorskiy Kray.

The fact that spending on the production of foodstuffs is higher than retail prices is well known to the authors of these questions. Recall that the average retail price for a kilogram of beef is 1.77 rubles, while budget appropriations for making up the difference in prices are 3.68 rubles, for animal fats they are 3.68 and 6.28 rubles, and for a liter of milk 24 and 29 kopecks respectively. They also agree with the fact that a “conjuncture” in the budget between the “debit” and “credit” lines is essential. In reality, without bringing these “ends” together it is difficult to count on stable economic development. I would add that the state, concerned for the welfare of people, has not proceeded with price increases for goods of primary necessity for a long time, while the difference between the actual spending on the production of agricultural output and the prices it is sold for through state trade is made up via subsidies at the expense of the state budget. These subsidies total about 66 billion rubles a year just for meat and dairy products alone. But even then they often do not cover expenses, especially on poor farms, and they create no economic incentives for increasing the production of animal-husbandry products.

The best way, of course, is to reduce costs, but many farms are still unable to reduce spending sharply. A radical technical retooling of the sector and changes in organizational forms and material incentives are

needed—and that means that funds and a certain amount of time are needed once again. A vicious circle obtains.

Now let's reflect a little on whether the state is ready to distribute food products according to need rather than labor, that is, wages. Are the kolkhozes and sovkhoses ready to increase the production of animal-husbandry output unselfishly, without a look at the level of profitability? Are people ready to limit consumption consciously, taking shortages of foodstuffs into account? Life unfortunately gives negative answers to these questions. We cannot fail to take into account what the production of meat and milk costs, what losses the state is bearing in selling it to the population. Need it be said how this undermines the country's budget?

Take the budget of the usual family. Here everybody becomes an economist, everyone understands full well what they can permit themselves to purchase after wages, and what they have to wait for, get some money together, put the income “in its place.” The state is the same kind of family, only enormous, with immeasurably more complex economic and financial systems. But even on the scale of the state, we must also learn to live within our means, to link our requirements with our capabilities and the end results of labor.

Prices should be formulated depending on objective economic factors. All foodstuffs and any other goods should cost as much as they are worth and provide the agro-industrial complex and the state budget with funds to create the essential monetary accumulations.

Kolkhozes and sovkhoses should of course strive by all available means to reduce spending on the production of foodstuffs. This would be facilitated by the conversion of the enterprises to full economic accountability [*khozraschet*] and self-financing. But matters are being hindered by the “curve” between spending and procurement and retail prices, they are seemingly cutting off the “blood vessels” of the economy.

There is another side to the problem as well. We must tie the income of the population to the end results of labor. There is a sharp, perhaps, but fair saying on this: “You eat as you work.” We have inculcated the view here that socialism practically automatically provides prosperity, that we should live well regardless of how and what is done for it.

The imbalance between our requirements and capabilities has long been considered a “trifle” that can be neglected. Today we are addressing the realities of life. You can't consume more than you produce. It is difficult for a state, as well as an individual, to learn to live within one's means. Today we are doing so—we are learning.

“They say that state prices will soon be made equal to cooperative prices. So life will become more expensive? Is it assumed that the rise in the cost of foodstuffs will be

compensated for by price reductions for industrial goods?"—T. Nikolayeva, Kursk Oblast.

"Price increases for foodstuffs hit low-paid workers and retirees especially hard. I, for example, work in a rural school as a technician, I don't earn much, and I have two small children. How will we live?"—A. Chulkova, Kokchetav Oblast.

Price reforms will not drop out of the sky like snow, they will be discussed widely and openly—this has been said more than once by M.S. Gorbachev. You should not imagine that you will awaken one day, go to the store and be startled to see new price tags. Much preparatory and explanatory work will precede each stage.

State prices will be brought into line with social expenditures on the production and sale of foodstuffs. This should not, however, affect the standard of living of the major portion of the population. A mechanism is being developed to compensate for certain losses associated with the retail price increases. Various forms of such compensation could be envisaged herein. What do they in mind? Possibly raising wages, for example, for low- and medium-paid categories of workers. Or so-called privileged prices for a certain minimum of foodstuffs. Still another way is to reduce prices for a number of industrial goods.

It is also necessary to take into account the circumstance that the rights of labor collectives are being expanded. They will be able to use social-development and material-incentives funds more actively, they can set "their own," lower prices in cafeterias, lower fees for children's pre-school institutions etc.

One must also not forget the additional income that the rural family could get from private subsidiary farming. Various restrictions are being removed and new incentives are appearing today for the development of household farms, subsidiary gardens and orchards or the production of commodity output in private subsidiary farming. I would note that over the last two years alone, the real income of rural families from subsidiary farming has risen considerably.

Perhaps the chief "compensating" factor consists of the fact that earnings restrictions will be removed. The issue is being presented in this manner: you produce more—you get more. What possibilities are opened up by this are visibly demonstrated by the KITs (intensive-labor collectives), contract teams and sections and families working under contracts. The 6th issue of SELSKAYA NOV of last year published the article "The KITs Are Laying the Track" in which some interesting figures were cited. The Baturinskoye OPKh [experimental model farm] in Kurgan Oblast, for example, had a section of four people that produced 97,000 rubles' worth of foodstuffs apiece over the season, while on the neighboring Put Ilich Kolkhoz a team of 27 people "reached" that level! The earnings were distributed accordingly—they

were 4-5 times higher in the section! Here is a convincing example of how the family budget can be materially supplemented through one's own intensive labor.

We must strive to see that peoples' income grows faster than prices. And for that we will have to carry out a fundamental reconsideration of the system of wages and the whole aggregate of principles of material incentive. There should not be any "ceilings" for honest earnings and bonuses, which will also correspond precisely to our unshakable principle of "to each according to his labor." At the same time, wages should not be a "tribute" for presence on the job, wages and bonuses must be earned. Wherein gross income is a real measure of the results of labor by the labor collective. Either it exists or it doesn't. With all of the consequences arising therefrom. When economic methods ultimately gain the upper hand, when not gross product output but the ruble becomes the sole accurate criterion of the state of our economy and economic interests are working at full force, then the conditions will have been created for raising the standard of living of people and balancing the state budget.

"If foodstuffs become more expensive, will there be more of them in the stores?"—V. Semerenko, Zaporozhye Oblast.

Both irony and apprehension can be divined in the question. This is understandable—retail price increases touch on all of us. This measure in and of itself, of course, will not add foodstuffs in our stores. The reform will lead to somewhat of a change in the patterns of consumption, and we will have to be more economical. We recognize, however, that many of us, especially those who earn a great deal and enjoy stable and low prices, have forgotten thrift. So much, for example, has been said and written about a thrifty attitude toward bread, but the exhortations have brought little. It seems that the ruble will in that manner become a harsh teacher that will be able to effect radical changes in consumer psychology and teach us to conserve foodstuffs better and use them more efficiently. They are obtained at great labor, after all.

But the main thing is that the price reforms will make it possible to strengthen incentives for increasing food production on the kolkhozes and sovkhoses. Reducing budget losses to a minimum and ensuring a balance in it, the state will be able to give subsidies not to the producer, as is practiced today, but rather to the consumer, that is, to direct more funds toward improving the social sphere—housing construction, cultural, domestic and medical institutions, schools and kindergartens. The funds of enterprises—social development, material incentives, wages—will increase as well. And that means that opportunities will appear to raise the welfare of every Soviet family.

Readers' Letters Continue Objections

Moscow SELSKAYA NOV in Russian
No 1, Jan 89 pp 31-32

[Selection of letters by G. Yuryev: "Is This Reality?"]

[Text] The feature "We Are Addressing the Realities" (SN No 3, 1988), in which a sector chief from the NII on Price Formation, Candidate of Economic Sciences D.F. Shavishvili, answered readers' questions in connection with the impending price reform, attracted a great deal of mail. The overall sense of those answers can be reduced to the fact that price increases for some food products are economically justified and expedient. Only a few of our readers agreed with that position. The majority of the authors of the letters categorically object and propose their own solutions.

The pocketbooks of our consumer have become used to being dealt with quite unceremoniously, prices are sometimes raised without even any official notification. It's nothing, they say, we'll get over it. And they are supposedly concerned about our welfare therein! Words, words... And in Russian this is called "hitching a ride into heaven."

They tell us of the necessity of bringing prices for food products into line with expenditures, they talk about losses due to the subsidies for foodstuffs. But the real problem is not subsidies, but rather the fact that every year the population receives monetary income that is several billion rubles more than the state can offer goods and paid services for. It is namely for that reason that the budget deficits arise. At the same time, wholesale prices for capital goods here are going steadily up. And that increases the gap between "credit" and "debit" even more.

They are promising to compensate us for the rise in cost of food products with supplements to monetary income and price reductions for industrial goods. But that is a shell game, after all: cut in one place so as to add on in another! The only way out is to produce more output more cheaply, saturate the market, not to move money from our pocketbooks into the state's pocket so as to give us a kopeck back later as a sop.

Now the representatives of Goskomtsen [State Committee on Prices] have started talking about the impending "democratization in price formation." What do they have in mind? It turns out that the right to set prices will be shifted to the local areas, to lower-level bodies. But after all, that is not democratization, but decentralization, nothing more. Prices will simply be dictated by a lower-caliber functionary instead of a high official, and we will remain a voiceless mass that should accept everything.

A. Rusanov, Tula Oblast.

D.F. Shavishvili promises that "prices will not drop out of the sky like snow, they will be discussed widely and openly—this has been said more than once by M.S. Gorbachev. You should not imagine that you will awaken one day, go to the store be startled to see new price tags."

I don't know how it will be in the future, but here in Chelyabinsk Oblast, people are already startled in the mornings by new prices. Before 1988, a kilogram of chicken and duck giblets cost 50 kopecks in the store, in January a ruble, in March a ruble fifty and, since March 24, two rubles. A liter of milk costs 24 to 28 kopecks everywhere, but an "experiment" has already begun in Krasnoarmeyskiy Rayon—the price has been raised to 38 kopecks. Sour cream cost 1 ruble 80 kopecks a kilogram, but since March it has been 2 rubles 40 kopecks. The oblast leaders were elaborating on a Chelyabinsk television program that "the transition to economic accountability is being implemented here, and we are therefore selling foodstuffs in accordance with their cost."

So that's it! Across the whole country and in the press a great debate is underway—raise prices or not—but our zealous leaders have already "overtaken and passed" everyone. It seems that it is possible to get by without glasnost and without broad discussion, why stand on ceremony—write the new prices tags and be done with it! That's what I'm afraid of, that one fine day they'll do that everywhere in spite of all promises and assurances. And that is the reality that no one wants to address!

V. Pivovarov, Chelyabinsk Oblast.

This discussion has been going on in our press for a long time. Now I read about a thrifty attitude toward bread here in your journal in the article by D.F. Shavishvili. He feels that the ruble will be the strictest teacher that will help radically alter consumer psychology and teach us to use food products more thriftily and more efficiently.

Bread is not tossed into the wastebasket by people who know its price. I am among them. I am 35 years old, and both life and my parents have taught me that throwing out bread is a great sin! And one need not explain such a simple truth to us, who have known the price of a hard-earned kopeck since childhood. I also think that I do not need the great ruble-teacher as expressed in high prices for a loaf.

But I know and see who throws bread out. They are the Soviet bourgeoisie—satiated, with dealer friends and access to store shelves. Bread is nothing to them—they throw out the leftover smoked sausage. And prices increases won't hit them in the pocket.

But it will be tight for me. And I don't believe in any of those funds from which I'll be paid out compensation after price reforms. I was on maternity leave, and my eldest daughter had a most difficult operation, she has been forced to wear a corset ever since. I appealed for maternity assistance at my place of work, but I was ultimately rejected, referring to the fact that the application had been written somewhere around 20 days after the second child reached a year of age. Had I written sooner, they would have given me money, but now it's too late... And who dreams up such procedures here?!

So the price increases will hit us first of all—women without husbands, old people, invalids. And all those funds, compensations, benefits—we didn't see them before, we'll hardly see them now.

Think, think again before you raise prices: how will we live?!

Anna Vladimirovna Kravchenko, Donetsk Oblast.

I have lived a lifetime, so to speak. And I have come to an unhappy conclusion: we always try to take more from people and give them less. The people were pressed with misfortunes under Stalin, after him... And they have never tired of repeating that under socialism we are striving to reduce prices for prime-necessity goods, but it is not possible yet. They promised much, but life grew more expensive, we tightened our belts more and more. And now, it seems to me, we are taken a beaten path—we want to take from the people once again so as to give them something sometime in the future.

We are not hitting upon something, we know the actual realities of our national economy poorly, we do not know how to make decisions in favor of the absolute majority rather than in favor of ministries, committees and other departments. Of course, they have specialists there, they have information at their disposal. But after all, the highest state interest that should be observed is my interest, the simple working person. One must lead by more than bare calculation, our socialist society should be distinguished by humanity in relation to the rank-and-file laborer.

I have three children, I do not drink or smoke, I can work as an electrical fitter, electrical installer, tractor driver, gas or electric welder or radio technician. People like me, I say without false modesty, are called the salt of the earth. And not once over my whole life have I been asked straight out whether I agree with a government decision, do I like it or not. But if my opinion is not of interest to anyone, for whom is all of this being done then? And haven't we lost the most important thing behind all of our resolutions—the person?

I am categorically against price increases for foodstuffs. But I fear that simply no one is interested in this.

Aleksey Mikhaylovich Meretskiy, Leningrad Oblast.

I would like to make several additions to the question of the price reductions under Stalin. D.F. Shavishvili related this interestingly and, in my opinion, correctly, but he omitted an important detail.

After the war there were two types of food trade in existence: state, by ration cards at 1940 prices, and free and commercial, at very high prices. A mug of beer cost 6 rubles 50 kopecks, for example, at buffets, restaurants and snack bars, while a kilogram of white sugar was 35 rubles and a kilogram of Siberian salmon was 90 rubles.

By resolution of the Soviet Government, starting 1 Jan 48 the ration-card system was abolished and commercial trade was also dissolved, but the 1940 prices at which food cards were "issued" were raised 300 percent. But wages remained as before! It was then said, it is true, that these measures were of a temporary nature, and a return to the former prices would be implemented gradually.

People thus felt the Stalin price reductions to be a good thing and took it at "face value," while it was just the slow smoothing out of a colossal (300 percent!) jump in prices at the beginning of 1948 compared to the time before.

N. Lyubimov, veteran of the Great Patriotic War and of labor, Moscow Oblast.

I'd like to know how the wages of our supervisors and officer personnel "weigh" on the cost of food products. And why is the agricultural machinery produced by industry getting so expensive—not by the day, but by the hour—when it is not distinguished by high quality or reliability? The Don-1500 combine, by way of example, costs about 40,000 rubles! And how much to the procurement workers let rot in the fall and winter in storage? And why do we turn out to be at the bottom of the list among developing countries in the yields of all types of crops?

And more: how to understand that all sausage is already being sold in our state stores at cooperative prices?

The people are literate today, they can count and read everything. People have accumulated many questions. And they must not be deceived. That will come to no good.

Your faithful reader B. Gostyunin, Dnepropetrovsk Oblast.

We must link prices for foodstuffs with the cost of the products? We must at least procure a little more of different feeds for our cows and bulls for a whole year for that, I feel. We have been chronically underfeeding our livestock for many years now, stocking fodder meager in nourishing substances and fantastically expensive in labor expenditures. We feed animals grain, but we do not give them simple hay to their heart's content. All of this makes milk and meat many times more expensive. At one time the production of a kilogram of meat on our farm cost 95 kopecks, but now it costs 5 rubles 60 kopecks!

We don't need to raise food prices, we have to incorporate progressive methods of maintaining livestock more actively and solve the problem of feed production. The rural household could be a great help here, but we are still literally smothering it with requisitions. If, by way of example, a retired person in our village keeps a cow, he has to pay 60 rubles for the allotted pasture and haymaking, 130-140 rubles to the mowers and 40-50 rubles to the tractor driver for delivering the hay. He decided to keep the calf? Then the spending is almost double! And you can't go to the rest home or visit your son: the cow isn't a machine tool, you can't shut it off. That means you work without rest or days off... Who is attracted by such "prospects?"

Now you write: "We must help the state..." But maybe in this case the state should help properly the peasants, and not in words but in deeds? Then everything here will be, as they say, cheap but good.

A. Demin, Tugulymskiy Rayon, Sverdlovsk Oblast.

The impending price reform is an extremely complex affair. It requires profound scientific analysis, economic foresight and a comprehensive regard for the interests of various population groups. The editors will continue discussion of this acute problem.

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Reform of Agricultural Price Formation

Readers' Letters Fault Pricing System

18240072 Moscow SELSKAYA ZHIZN in Russian
21 Jan 89 p 2

[Article by A. Kostyukov: "Reflections on Letters From Readers: Will We Change the Price Lists?"]

[Text] On 30 October, the newspaper printed an interview with V. Kufakov, deputy chief of the summary economic department for pricing in the APK of the

USSR State Committee for Prices, and editorial comment on the interview under the title "Prices: Is There a Choice?" On the central issue—Is a rise of food prices obligatory?—V. Kufakov and the author of the comment did not, as it is said, concur in their views. Dozens of readers have joined the discussion between them. The general tone of this debate by mail is extremely emotional. Which is in fact understandable, this is a matter of the very greatest....

There is, of course, a different opinion. T.P. Kozhemyakov of Tselinograd is convinced that the noise over the anticipated price reform is necessary only "to those who buy meat at state prices: Muscovites and Leningraders, those who live in certain other regions, personnel in the trade sector, and those like them...." "To no small degree the news media, represented by and large by Muscovites, are to blame" for the discussion that is now developing, according to the author of the letter.

Yes, that point of view does exist. Its proponents for some reason overlook the fact that Goskomtsen, which is insisting on higher prices for produce, is not located in Tselinograd either. Was the price reform after all conceived only to deprive Muscovites and Leningraders of purchasing privileges? That could be done by a simpler means—cut off their stocks of sausages. It would be done in a minute!

T.P. Kozhemyakov is an agricultural specialist, a candidate of sciences. I communicate this detail exclusively for the benefit of Yu.A. Pivovarov, who wrote to us from the Crimean village Zelenoye. The reason is that Yuriy Arkadyevich believes that pricing is not a matter for dilettantes and that it is stupid to make a nationwide dispute over the question of prices. In the dilettante's view, the lower prices are the better. The specialist, knowing "how the economy operates," will never say that.

An absolute majority of the readers who have written to us are not pricing specialists. They are in fact opposed to a rise in prices. I do not intend to be seduced by that unanimity ("After all, it does not occur to anyone," Yu.A. Pivovarov notes, "to vote, say, in order to decide how to operate a nuclear reactor"). Social passions are not the best argument, it is true. But the judgments of ordinary mortals who have observed life not from the academic heights, but from the eminence of their everyday experience, do not deserve to be waved aside in annoyance. They have, don't you see, already lived through one reform, and, let us be frank, a strong mistrust of half-baked experimentation in general has been developed in them. They are the ones, not the experimenters, who will be paying for these experiments. What is prejudicial about the fact that in numerous articles and interviews on the price reform they seek full clarity accessible to everyone, and when they do not find it, they keep on putting more questions, and they block out a sheet of paper with more and more new counter-arguments? No, it is necessary and indispensable to hear

them all to the end! The opinion is being expressed that the rise in retail prices and purchase prices of meat and milk makes our kolkhozes and sovkhoses able to operate without losses, will make it possible for them to make the transition to cost accounting (khozraschet) and self-financing, and this will in turn urge a growth of production, their will be an abundance of produce, and as a result, conditions will be brought about for reduction of their prices. Thus, the rise of prices is a temporary sacrifice on the altar of the radical economic reform. And then every sacrifice, and that is what it is, the difference in prices, will after all be compensated by money supplements to the population!

It all seems simple. And the population nods its head disbelievingly. The Tatulyans of Krasnodar Kray, their countryman K. Gorelov, and many others instantly recalled: they had already heard about a "temporary" rise in the prices of produce. Under Khrushchev, do you recall? The objectives pursued at that time were the same, and you yourself know how it turned out. It did not turn out, it did not work. Why is it that the proponents of the new reform think that it will work this time?

Yu.A. Pivovarov suggests: this time "it is a question not of raising prices, but of bringing artificially set prices to their true value." He blames our past failures on "the organized state market on which prices are artificially projected out of touch with economic factors that actually exist." One can quibble about the terminology, but the idea, in my opinion, is beyond dispute. By the end of the second page, arguing logically and with a knowledge of the matter, our author arrives at the law of value and makes the remark: the true price is derived from the relationship between supply and demand. Thank you very much, as they say, for reminding us. As a matter of fact, we did forget what the price was during the period of directive pricing. Yuriy Arkadyevich proposes that we look at the ordinary kolkhoz market: here the price is formed naturally, it is the result of negotiation between the seller and the customer. Whether we like it or not, it is objective on the given market at the given moment and does not depend on the will of any bureau. Which, in the opinion of Yu.A. Pivovarov, "the custodians of 'cheap' prices do not want to see."

If the authors of the price reform proposed the kind of pricing mechanism which Yuriy Arkadyevich is advocating, most of their present opponents would, by all appearances, come over to the side of their advocates. Possibly the comrades in Goskomtsen are holding something back, but the organization of the socialist market for goods and the corresponding market mechanism for pricing is not examined in their intentions. That is, it is not evident that as of the date of the reform's publication the kolkhozes and sovkhoses will be free of mandatory deliveries of products at firmly fixed prices and will be free to sell them to anyone they like, where they like, and at the price which we the customer agree to give them. This variant does not preclude state regulation of price

levels at all. But economic regulation is not the same thing as administrative establishment of prices. It is clear to us, of course, that this does not depend on the committee for prices alone. The dismantling of the administrative produce allocation system is the job of the major economic reform. But we are already aware of the need for this, it has been put on the agenda of restructuring—Why exchange it for partial measures that do not essentially change anything? If a kilogram of meat cost 2 rubles, it will cost, say, 4. What will actually happen except a change in price lists? One artificially set price will be replaced by another price that has been set just as artificially, and that is all.

The fact that the new prices will be closer "to their true value" is not much consolation. That proximity is a temporary phenomenon. T.P. Kozhemyakov suggests that meat will become more expensive only for Muscovites, Leningraders, and other privileged strata, but he will go on paying the same 3 rubles 50 kopecks per kilo that he has been paying in the cooperative store. Many people do not have that kind of confidence. They are afraid that both cooperative prices and market prices will rise right behind the state prices. Comrade Sinkov, who lives in Altay Kray, is moreover convinced that prices will jump up "for bread, for agricultural technical raw materials, and that means for footwear, clothing, and then for machines needed by those who produce agricultural produce." That is, the rise of prices will run in a circle, over the entire chain of the national economy, and it will yield nothing for either the producer of the product or its consumer. We have also experienced this more than once. Those supplements back in 1982 were rapidly eaten up by the rise in the prices of equipment, building materials, and other commodities for production purposes in agriculture.

Where is the guarantee that this will not happen again? After all, the new prices are being worked out on the same methodological foundation—their adjustment to the value of the product's production costs. But then a price that obediently follows costs is simply condemned to rise without stopping. This is well-known and has been for a very long time.

Incidentally, many readers do not share the firm opinion of the authors of the price reform that there is no way that the production costs of food can be brought down. Without appealing to the well-known examples from the practice of leasing collectives, which in a year or 2 are managing to reduce the prices of meat and milk to half and to one-third what they were, let us listen to an ordinary rural inhabitant—M.A. Inogda of the settlement Repki in Chernigov Oblast: "Wherever you look, wherever you go, we go on losing everything. We lose approximately 30 percent of the yield of grain, potatoes, and sometimes the flax all rots in the field.... And how much unnecessary equipment are we producing? And how many unnecessary staff people do we support in administrations? And how much do we steal, how much figure padding do we do? How much do we squander?

And how much building do we do in the wrong places? And how much...?" It is a long letter, there is not space in the newspaper for Mikhail Aleksandrovich's examples. Another reader of ours, A.I. Glazyrin of the village Bagaryak in Chelyabinsk Oblast, who counted up articles on absurdly wasteful expenditures, barely fitted them in 18 pages. He reached the same conclusion: a thorough reform of the entire system of economic relations is necessary, raising purchase prices is like putting a poultice on a dead man.

The system of prices worked out from those positions is not bad because it presupposes higher prices for food (as a matter of fact, this would also happen with prices formed on the market), but because it does not signify anything really new, nothing that would approximate a radical economic reform. And we are not so rich as to finance old experiments. I personally like the proposal of reader I.V. Zemtsov: let the USSR Council of Ministers announce a competition for the best plan of a pricing reform, establish a solid prize, and let foreign scientists take part in it.

Agricultural Produce and Price Reform

18240072 Moscow *EKONOMICHESKAYA GAZETA*
in Russian No 6, Feb 89 p 11

[Article by K. Mozhin, scientific associate of the Institute for the Economics and Forecasting of Scientific-Technical Progress of the USSR Academy of Sciences: "Prices, Costs, and the Market"]

[Text] A reform of pricing requires a straightforward substantiation, especially when it comes to consumer goods and foodstuffs in particular.

It is well-known that retail prices of foodstuffs depend above all on wholesale prices and purchase prices. The first stage of the pricing reform of foodstuffs, then, is seen precisely to be improvement of the system of wholesale prices, which do not directly affect the interests of the consumer. Recently, the question of eliminating or at least reducing budget subsidies for foodstuffs became more intense. Today, they amount to 20 kopecks per liter of milk, for example, 12 kopecks per kilo of potatoes, and 3.2 rubles per kilogram of meat.

What does the system of purchase prices in agriculture look like today? Its foundation is the price list of purchase prices of USSR Goskomtsen. That list sets the base prices of all types of agricultural products adjusted for the zonal differentiation. It is used in collecting rent from farms located where the climatic conditions are better (there are 110 price zones for milk, for example, 132 for wheat). In addition to the base prices, supplements are envisaged for overfulfillment of the plan, for products produced over and above the average annual level of the previous 5-year planning period, for improvement of quality, and also for farms operating at

a loss or at a low rate of income. As a consequence of this kind of pricing, virtually every farm forms its own individual price.

In other words, the process of price formation is not economic in nature, but administrative. The price level on a farm depends on the zone it happens to be in, on the past level of production (the lower it has been the better), and then simply on the level of costs—if the level of costs is high, one can get a supplement to the price. This is confirmed by the following figures. Over the period 1975-1985, the average purchase price for grain crops rose 33 percent, the price for potatoes 106 percent, the price of milk 103 percent, and the price of beef 49 percent. The rise in the production cost over that same period was 39, 78, 56, and 55 percent, respectively. It is obvious that the present pricing mechanism for agricultural products is aimed at covering rising production costs. Its principal deficiency is that prices are independent of the volume of production or the supply of the product.

Many people are now expressing the fear that the level of wholesale prices in agriculture is determined by the rise in the cost of basic resources. Various examples are given, in particular the "Don 1500" grain-harvesting combine, whose price already exceeds 40,000 rubles. But it is also well-known that in recent years agriculture has been consuming larger amounts of physical resources.

According to our calculations, agricultural production is becoming more expensive for the following reasons. In cropping, because of the 19-percent rise in wages, the 29-percent rise in prices of resources, and the 52-percent rise in resource intensiveness. In animal husbandry, the respective increases were 19, 49, and 32 percent (animal feed, the adequacy of which has not risen for a long time now, represents a sizable portion in the cost structure of animal husbandry—almost 50 percent). To a considerable extent, the rise in costs is a consequence of uneconomical expenditure of resources.

Consequently, real opportunities do exist for reducing the costs of agricultural production. Especially since now we see an oversaturation of the sector with certain resources—combines, fertilizers, and other things. The main reason for the rise in the production cost in agriculture is the inefficient economic mechanism, an integral part of which is the setting of prices based on costs. Prices have in essence been turned into a simple "recorder" of the rise in production costs. We have to restore to them the important function of a planned regulator of production, and that involves forming a wholesale market in agriculture.

The Hungarian experience with market regulation by means of price instruments is interesting. In Hungary, agricultural enterprises have been freed of mandatory product delivery since 1968. Moreover, there is a three-part price system: state prices, free prices, and interval prices. Today, these prices account for sales of 50, 40,

and 10 percent of agricultural products, respectively. This makes it possible on the one hand to form the market basis of the price, and on the other to use state prices for agricultural production as a regulatory instrument.

Central authorities make up the state order—which amounts to no more than 25-30 percent of the product required—and they distribute it on a voluntary (competitive) basis among the farms. This output and a portion of remaining output are subject to fixed prices. A change in those prices is a signal to the farms that there is an additional need or, on the contrary, the market is saturated

with the particular product. A sizable portion of output, especially that portion which does not require large capital outlays, is sold at free prices.

We do have the conditions necessary for forming a market for agricultural products in our country. Farms, for example, do not have a monopoly position, they have been granted broad rights in selling their products and in determining the volume of production by types and crops. All of this makes it possible to activate truly market relations in this sector and to improve the soundness of prices.

ENERGY COMPLEX ORGANIZATION

New Group's Concern for World Energy Resources

18220037 Moscow IZVESTIYA in Russian
17 Jan 89 p 5

[Interview with Aleksandr Yefimovich Sheyndlin, academician, honorary director of the Institute of High Temperatures of the USSR Academy of Sciences, by B. Moskvichev: "Is the World Solving the Energy Problem?"; date and place not given; first three paragraphs are IZVESTIYA introduction]

[Text] The events of the last few years have clearly demonstrated the interrelation of many problems existing in a world changing under the influence of the scientific-technical revolution. In his speech at the United Nations, M.S. Gorbachev noted that problems which we had not long ago dealt with as national or regional had now become global.

Among these is the energy problem. To solve it, a group of eminent Soviet energy scientists came forth with an initiative to create the Moscow Energy Club. It is supported by UNESCO, the Soviet Committee of Scientists To Defend the World Against Nuclear Threat and a number of international funds. The constituent conference will take place in Moscow at the beginning of March of this year. A number of well-known foreign scholars and influential public figures have already agreed to participate in the work of the first forum. F. Mayor, general director of UNESCO, will attend the opening of the Moscow meeting.

One of the initiators of the Moscow Energy Club, Aleksandr Yefimovich Sheyndlin, academician, general director of the Institute of High Temperatures of the USSR Academy of Sciences, today expresses his point of view on solving the global energy problem.

[Moskvichev] Problems related to the perspectives for the future development of energy are at present being discussed not only in scientific circles, but also in the general press. Just recently we felt that he who wishes to live better must consume more energy and must develop energy at boosted, outstripping rates. How closely does this thesis correspond to our present ideas on the development of world energy?

[Sheyndlin] Let us look at the statistics, which know everything, but which not everyone knows. During the long postwar period, and in any case during the two decades of comparatively smooth evolutionary development from 1950-1970, the percentage of yearly growth of the gross product in practically every developed country, without exception, is accompanied approximately by the percentage of growth in consumption of primary energy resources (particularly, in the USSR—1.25 percent, in Japan—1.00 percent and in the United States—0.81 percent). A stereotype of its own has formed in the

consciousness of most specialists and the broad public: to double the gross product means approximately to double the consumption of primary energy resources. Doubling primary energy under today's conditions, however, by no means leads to its specifically becoming less expensive, as is inherent in series production of machine building or, let us say, the footwear industry. The conformity to principle here is qualitatively opposite and essentially nonlinear. Each new ton turns out to be not less expensive, but substantially more expensive than the one extracted earlier.

If this objective conformity to principle exists, doubling the gross product will in no way lead to doubling the national income. The national economy resembles a traveler going up a hill with an increasingly steep ascent. The higher it is, the less the speed of the ascent, and the moment when the ascent can cease completely is not far away. Returning from tourism to economics—the entire increase in the gross product will be used up in increasing the production of primary energy, and the increase in national income will cease for this reason alone. But we wish to live better. Grippled by planned fetishism, we draw red arrows into the future that in no way change the route, i.e., specifically, our attitudes toward energy consumption. It remains only to wonder why we derive our realization of the blind alley nature of this path not from our own experience, but from foreign troubles.

[Moskvichev] What, in your opinion, is the role, under these conditions, of the energy policy which we sometimes conditionally call energy conservation.

[Sheyndlin] Despite the first success of energy conservation in the developed countries, the world as a whole remains quite energy-extravagant. We, for example, consume approximately two- to three-fold as large an amount of primary energy resources calculated per unit of national income as the United States, and this on top of the fact that the United States are in this instance by no means a paragon of virtue. Of course, it is naive to calculate the possible saving of energy resources from a theoretical minimum consumption of them, just as it is naive to discuss the periods for depleting resources as for example, oil or gas. In reality, the last ton of oil should be extracted not when its physical depletion comes, but on the day when its economic effectiveness as a power carrier is exhausted.

Absolute depletion of physical energy resources is a scarecrow for the uninitiated. Today photosynthesis accumulates in green plants 10-fold more energy in a year than the world obtains by compressing organic fuel. Another thing—the quality of this energy and its concentration are in the last analysis the economic expediency of its use.

As applied to our country it can be stated that it is economically expedient now to reduce the volumes of petroleum extraction. The funds saved in attempts to increase or even sustain the irrationally high level

achieved in petroleum extraction can be extremely efficiently invested in energy conservation measures.

Something similar can also be said with respect to nuclear power. Here is a simple illustration.

Lighting consumes 12 percent of all the electric power produced in the country, approximately as much of it as is produced by nuclear electric power plants. Let the doubling of the economic potential signify, at the same time, the doubling of "light consumption" (this, of course, is a very rough assumption). The desired "lighting" of our future life can be achieved in the framework of the scheme discussed in two ways:

By the development of nuclear power;

By the transition to energy-conserving technology in electric lighting, for example, by replacing two-thirds of the electric incandescent bulbs with fluorescent lights of the second generation having a luminous efficiency per unit of electric power four-fold higher than that of the incandescent light bulb.

It is not a question of achievements from another planet: bulbs of this type constitute 30 percent of the electric lighting instruments in the United States.

Let a conscientious expert evaluate the capital investments needed for these two variants, the cost of the kilowatt-hours saved and spent additionally, the periods for payback and, finally, and above all, compare the social and ecological attractiveness of one way or the other.

An unscrupulous expert has already had his say.... Because, whatever the illusions and theories that have guided us, the activity of our economic system is a gathering of state ministry-monopolies. It is useless to call for their vegetarianism. Monopolies behave like monopolies not because of the poor upbringing of the people ruling them—they can be very nice—but because of their nasty, anti-social nature. Inherent in this nature are expansion and the suppression of an alternative as a form of existence. It is not difficult, in preserving such a state of affairs, to guess the probable victor in a competition between a nuclear reactor and an electric light bulb. The first signs of the fact that the situation can change are appearing, however.

[Moskvichev] Earlier, when speaking of the energy crisis that broke out in 1973, we seemingly avoided mentioning the way in which it affected our economic system. As a result, the impression was created that we were like an isolated economic island. Is this so?

[Sheyndlin] The shocks of the energy crisis led to realization of several unexpected truths: economic growth, and quite considerable growth, is in general possible without increasing the demand for primary energy resources. For example, in the United States the absolute

demand for primary energy resources, which doubled in the 17 years preceding the 1973 energy crisis, has in the past decade not only failed to increase but has also dropped several percents as compared with 1973.

At the same time, the gross national product of the United States rose by 25 percent, and as a result the consumption of primary energy resources calculated by a fixed dollar of the gross national product, was reduced by approximately one-third. Similar or even more significant shifts, connected with the structural reorganization of the production mechanism, took place in the economic system of the EEC countries and Japan.

It would be precipitate to think that the phenomenon and trends engendered by the power crisis in those years are transitory and are not of a global nature, reflecting only contradictions in the system of international capitalist division of labor. In today's world, not a single country and not a single group of countries can remain isolated as an economic island. For example, while exporting a considerable amount of petroleum and petroleum products according to the quite unstable prices of the world market, it would be strange to try to implement some long-term energy policy without a corresponding system of flexible response.

[Moskvichev] You spoke of the need to work out a long-term energy policy. Is it possible to do this without taking into account the development of the world economy as a whole?

[Sheyndlin] Studies of this nature are possible only by taking into account the entire complex of world economic relations: fluctuations, cycles and limits: growth cannot be regarded in isolation, but for different sections of our space ship.

This is displayed most clearly in ecological problems, engendered or exacerbated by the development of raw energy sources. We will touch only on one of them—the problem of the Greenhouse Effect or global warm-up.

Until the middle of the 21st century, the traditional hydrocarbon fuel, most likely, will retain its dominating position in the fuel-energy balance. In addition, it should be expected that the organic fuel consumed will become more "carbonaceous" as the result of increasing the proportion of coal. This means that even with stabilization of the total volume of organic fuel consumption, through reducing the consumption of petroleum, the yearly entry of carbon dioxide into the atmosphere should increase, creating the effect of overheating the lower atmosphere. The socio-economic consequences of a global warm-up of several degrees is difficult to predict, but it is potentially serious. From the standpoint of national egoism one can console oneself by the fact that some people suffer less, and some people even gain from possible changes in climate. But these are very short-sighted calculations.

[Moskvichev] Is it right, though, for the developed states, who possess the necessary scientific and industrial potential and are capable on this basis of reorienting their economic system to an energy-conserving path of development, to require the same of the less developed countries?

[Sheyndlin] In any case, it is clear that this problem can be solved only by international efforts and on the basis of international agreements. The need to internationalize the energy economy comes forth particularly clearly here.

The growth of energy consumption in the less developed countries is compatible in the future only with a restriction of energy consumption in countries that have achieved a high level of development. The self-restricting policy of the developed countries is necessary and possible on the basis of the new, more efficient energy technology, and this puts to serious tests the stereotypes that have formed, the traditional legal, ideological and psychological aims. They lead objectively to overcoming the nationally restricted, sovereign nature of energy production, the internationalization of world energy.

[Moskvichev] Awareness of the limits to the growth of world energy requires new ideas and new decisions. It leads also to the fact that the best intellectual forces should be drawn into solving this problem.

[Sheyndlin] Global, international problems should naturally be solved by international efforts. Among the initiatives of this type is the proposal to create an international Moscow Energy Club. This new, nongovernmental association should combine major energy scientists, businessmen and public figures, to produce a world energy strategy and draw up recommendations which would make it easier for governments to produce a sensible and effective energy policy. Not one of the numerous energy forums existing today has posed such tasks for itself nor, possibly, is in a condition to solve them.

The Moscow Energy Club should borrow the best experience available and take a step forward. As young colleagues of the Rome Club, it should also become a bell, and a temple, combining in itself both the tocsin of a sermon and the secret of confession.

The club will inspire the implementation of the appropriate studies, will discuss their content and publicize their results. Three important priorities should obviously lie at the basis of the club's activity:

- the priority of common human values and general safety in solving state energy problems;
- the priority of social and humanitarian acceptability in evaluating the risk of new energy-technological and technical-economical optimization;
- the priority of energy-efficiency and sensible self-restriction over extensive operation of natural energy resources.

There is an alternative to unrestrained building up of the energy biceps, leading to the danger of global changes, capable of inflicting damage difficult to predict and undermining the hopes of many countries and peoples for social and cultural progress. It consists of raising the energy efficiency: better less, but better.

FUELS

Plans for Exploitation of Oil Deposits Outlined *18220083 Moscow NEFTYANOYE KHOZYAYSTVO* *in Russian No 1, Jan 89 pp 72-74*

[Article by V.V. Stasenkov: "From Materials of the USSR Central Commission for the Development of Petroleum Deposits"]

[Text] In August 1988, an out-of-town meeting of the USSR Central Commission for the Development of Petroleum Deposits was held in Almet'yevsk, at which plans were discussed for the development of several beds (mainly those confined to the terrigenous formations of the Lower Carboniferous period) of the Romashkinskoye Deposit, as well as the Bondyuzhskoye and Bavlinskoye deposits.

The need to compile and approve the planning documentation for these projects stemmed from the fact that during the period which has passed since the time when the last planning documentation was compiled (1977-1978), new geological industry data have been obtained, making it possible to define precisely the oil deposits and their distribution through the beds, as well as to evaluate the effectiveness of the technological approaches introduced. The Central Commission examined in detail the plans for development, prepared by TatNIPIneft [Tatar Scientific Research and Planning Institute of the Petroleum Industry] and the Tatneft Production Association, and approved them.

In accordance with the plans adopted for the purpose of intensifying the development of the beds of the Bobrikovskiy horizon (5 and 31 beds of the Romashkinskoye and one bed of the Bavlinskoye deposits), it is stipulated that additional lines of division be created and that nonstationary flooding be used in combination with a change in the directions of the filtration flows. Measures were outlined to increase the petroleum yield, including creating in the beds fringes of PAA [polyacrylamide] and sulfuric acid.

In discussing the plans, particular attention was paid to drawing into industrial development the beds of Kiesel and Aleksey carbonate levels. Considering the insufficient extent of study of the productivity of these objects in the process of exploratory operations and the lack of data on the effectiveness of affecting the pumping, the

decision was made to boost the experimental-industrial work within the limits of the sections singled out, with systems of action varying in the density of the well network; to operate the wells by creating vug accumulators at the bottom holes.

The plan approved for development of the Kynov and Pashiy levels of the Bondyuzhskoye deposit specifies further intensification of working the reserves through organizing additional pumping lines, introducing non-stationary flooding and forcing the extraction of liquid. In some sections, strating point flooding was outlined. To avoid overflow of liquid from the beds lying above and to equalize the pressure, it was proposed that water be boost-pumped out to the underlying Devonian beds and that effluent be injected. Pumping PAA was specified to increase the petroleum yield.

The main task of the approved, refined plan for developing the D1 level of the Vostochno-Leninogorskoye area of the Romashkinskoye Deposit is the fullest drawing into development of the oil reserves contained in a multi-bed object, heterogeneous with respect to productivity, not having a base bed. In the process of prolonged development, there was a deterioration in the structure of the residual reserves, in which the proportion of low-output increased from 10.1 to 29.6 percent. An outstripping working of the lower beds of the object is observed. The variant recommended for introduction specifies a further improvement in the development with the aid of: selective drilling of additional extracting and pumping wells on the upper beds to draw hard-to-extract reserves into the development; creating independent systems of action along individual beds; nonstationary flooding combined with an alternating direction of the filtration flows, which makes it possible to draw into active development the oil reserves concentrated in the siltstone and clayey sands. Also planned is the use of new methods of increasing the oil yield (pumping a polymer dispersion mixture and methyl celluloses).

In the process of discussing the planning documentation for the development of the deposits of the Tatar ASSR, found mainly at the 3d stage of development, it was established that to improve the planning methodology of the planning and coordinate the decisions made with the existing system of developing deposits that had been worked for a long time, as well as evaluate objectively the efficiency of the proposals introduced, a number of problems had to be solved, which were also reflected in the decrees of the Central Commission for Development of USSR Petroleum Deposits.

The Soyuznefteotdacha Scientific Production Association, in conjunction with the VNII [All-Union Scientific Research Institute for Petroleum Extraction], was charged with summarizing the experience in developing the deposits at Uralo-Povolzhe, using forced withdrawal of liquid at a later stage of operation and giving suggestions on their

further operation under various geological-physical conditions, in consideration of optimizing the withdrawals of liquid and volumes of water pumping.

The Tatneft Association and TatNIPIneft were committed to developing an efficient methodology for individual calculation of the effectiveness of hydrodynamic and physical-chemical methods of raising the oil yield for use in planning the above methods.

In compiling the planning documents to complete the development of the deposits, it was necessary to specify a combination of the method of using PAA with other physical-chemical methods; a group of technological devices to work the zones near the bottom holes, in accordance with the geological-physical conditions of each project.

The Tatneft Association must test, in 1989-1990, at several projects, the technology of flooding at late stages of development, with a periodic reduction in the bed pressure, right up to developing conditions of dissolved gas.

The Central Commission for Development of USSR Petroleum Deposits also examined the planning documents for carrying out experimental-industrial work (OPR) directed toward increasing the oil yield. A technological system of OPR was approved on alternating the pumping of water, oil and sulfuric acid at the section of the Bureykinskoye Deposit (TASSR), which specifies singling out the experimental section with strating point flooding with macrodiphase compositions (oil, acid), as well as a control section, developed by using ordinary flooding, with PAA pumped along the beds containing highly viscous oil.

With respect to the Vvedenovskoye Deposit (BASSR), in the process of development of which a gas cap was formed, a technological system of OPR was approved which specifies mixing the drive of residual oil of the ShFLY [not further identified] fringe, moved by dry hydrocarbon gas, pumped into the upper portion of the bed. The Central Commission for the Development of USSR Petroleum Deposits noted that, before this Nef-teotdacha NPO project was carried out, the technical state of the available wells had to be checked for airtightness and the current position of the GNK [gas-oil contact].

In accordance with the Program of Work on Preparing Widescale Introduction of Polymeric Action in Petroleum Beds for the purpose of increasing the oil yield, the commission approved the technological system of OPR using polymeric solutions along the Devonian A6 bed of the Orlyanskoye petroleum deposit (Kuybyshev Oblast), compiled by Giprovostokneft. The system specifies, beginning in 1991, creating a polymer fringe with a concentration of 0.005 percent and a size of 0.3 pore volume encompassed by the process. The deposit of the A6 bed, developed since 1974 under the conditions of

ordinary flooding, is presently being operated with low-yield wells with a routine water content of up to 90 percent, and despite the considerable volumes of liquid extracted, the end oil yield does not exceed 11 percent. The use of polymeric flooding with additional well drilling will make it possible to increase the oil yield by 4.1 percent.

New Generation Coal Cleaning Complex in Kuzbass

18220064a Moscow SOTSIALISTICHESKAYA
INDUSTRIYA in Russian 1 Feb 89 p 2

[Article by G. Shalakin (Mezhdurechensk, Kemerovo Oblast): "A Complex of a New Generation"]

[Text] The new-generation KM-142 breakage-face long-wall coal-mining machine can operate under complicated mine-geology conditions. It was put under an industrial load at the Rapskaya Underground Mine of Yuzhkuzbassugol [Southern Kuznetsk Coal Basin Coal-Production Association].

"When our brigade tested the machine," said P. Frolov, leader of a brigade of underground-mine coal workers, "the new equipment demonstrated convincingly its potential, and it surpassed other mechanized coal-mining systems in numerous parameters. The complex did not fear high mine pressure, it was maneuverable and easy to control, and it met the requirements for safe conduct of underground work. It worked seams from 2 to 5 meters thick cleanly and did not allow losses of coal below ground, which up until now has been considered practically inevitable. Well, and the maximum amount mined was 8,000 tons of coal per day. This equals the excavation work of several average mines."

"In brief, we can put the new mining machine on a par with the world's best models," a worker was convinced.

P. Frolov's brigade should in a year extract 800,000 tons of coal with the machine's help. Confident of the equipment's merits, the mine workers have decided to exceed this figure by 100,000 tons.

Dwindling Petroleum Resources Problem

18220064b Moscow MOSKOVSKAYA PRAVDA in
Russian 5 Jan 89 p 2

[Interview with Farman Kurbanovich Salmanov, Hero of Socialist Labor, Lenin Prize Laureate and First Deputy USSR Minister of Geology, by B. Shestakov, Moscow TASS correspondent—especially for MOSKOVSKAYA PRAVDA: "Are Underground Stores Being Depleted?"; first paragraph is source introduction]

[Text] For long decades we have become accustomed to the thought that we are rich in oil, gas and other most important fuel resources. As a consequence of this we took to outrageous extravagance in the use of our natural

wealth. F. K. Salmanov, Hero of Socialist Labor, Lenin Prize Winner and First Deputy USSR Minister of Geology, answers questions connected with this topic.

[Shestakov] Airliners grounded because of a shortage of kerosene, filling stations with "No Gasoline" placards, the disappearance of laundry detergent from sale....I want to ask you frankly, Farman Kurbanovich, can it be that the Motherland's underground stores are being depleted?

[Salmanov] To confess honestly, all these are facts—it is my daily anguish. Indeed our country is fabulously rich in oil and gas, and the underground stores are by no means depleted. As before, a large amount of the fuel being extracted goes to internal consumption, and it is sent to the fraternal socialist countries, and, finally, it is exported to capitalist countries, forming the basis for our foreign-currency income.

Yes, we are recovering oil, more than anyone in the world, but indeed, also, we are one of the largest countries in numerical strength. Even so, the consumption of oil and petroleum product per capita is half that of the U.S. It is less even than in Japan, which does not have its own fuel.

[Shestakov] What, then, are the causes of the difficulties that have been arising, and what action must be taken to solve this complicated problem?

[Salmanov] The main cause, it seems to me, is we ourselves. I observe with distress that growth in oil recovery in West Siberia, where I have spent almost all my life, has been slowed down unjustifiably. Recovery is dropping at the traditional fields—in Azerbaijan and Turkmenia. Exploration for new deposits is being impeded in the Orenburg area, the Timan-Pechora region is being brought into development only slowly, and the Caspian lowland still has not yielded a serious increase. If all these fields organized the service properly, they also would yield the necessary additional increment.

Capital investment in the branch has been growing unswervingly, while extraction has been marking time. However, while for the present supervisors are spending energy not on building up recovery but on the struggle for minimal plans, extraction is not budging. It is necessary that they depend directly upon the value of their work to the national economy.

Fragmentation of the oil complex is having a negative effect. We have one agency that recovers the crude, another that processes it and a third that sells it. The barriers between them and their indicators do not depend upon each other. The result is that it seems that everyone fulfills the plan but there is no fuel at the gasoline pump. Yet the West's largest oil monopolies, as a rule, completely control the path of the fuel from below the surface to the consumer.

Wastefulness has taken on intolerable dimensions. Fuel consumption by Soviet motor vehicles, tractors and other motorized equipment is double if not more than that of foreign equipment. The lack of a proprietary approach is being manifested in criminal indifference to the enormous fuel losses.

As before, we lag behind advanced nations in the intensity of oil refining. The Japanese, it is said, extract from our mazut 10 percent of valuable petroleum product. Samples of lead and vanadium obtained from oil by the laboratory path are preserved on our table. There are also gold, silver, chromium, nickel, titanium, manganese, copper and aluminum. But we are still forced, because of unperfected technology, to refrain from the industrial extraction of them. In the literal sense, we are paving roads with "golden" asphalt. And no one cares about it.

Perestroika's success is impossible without serious fuel and power support. First of all, underground exploration for and recovery of the "black gold" must be intensified in every possible way. As a person who has all the figures about resources, I can say with certainty: it is completely possible to reach a recovery of 700 million tons of crude per year as a minimum, by 1995.

[Shestakov] In brief, you propose to increase recovery. But what will future generations say about this?

[Salmanov] I consider the attempts of some agencies and scientists to intimidate us by saying that we will leave our descendants without fuel to be unsound. First, only 35-40 percent of the crude is being extracted from the ground today, the remainder will be left for future generations, with their more powerful equipment and more modern technology for recovering it. Let us take my native Azerbaijan. More than a billion tons of crude and gas condensate have been recovered there, but there is still more crude left in the ground.

Some people even spread the notion that we should not sell oil abroad. And I propose: it is possible and necessary, for each exportable ton of "black gold" brings the country five-fold the income. Of course, there was a time when crude was twice as expensive. Only this, I say frankly, saved our economy during the so-called stagnant period.

First, we cannot leave our CEMA partners without oil. Second, we need hard currency, until the positive results of perestroika are manifested in the national economy, to buy grain, advanced equipment, and consumer goods abroad.

[Shestakov] As we introduce conversion of oilfield workers to economic accountability and self-financing, what kind of results can this yield?

[Salmanov] I believe firmly that the key to success lies right here. The USSR Ministry of Geology's experience

in transferring to the second, more progressive model of economic accountability is convincing evidence of this. With its introduction, the amounts of deep exploratory drilling grew by 8 percent and the yield on capital investment was raised considerably—all this during a reduction in the number of workers by almost 20,000. It is true, danger lies in wait here: many supervisors are concerned primarily with growth of earnings, forgetting about the necessity for reinforcing it by increasing labor productivity. But I think this is a temporary phenomenon. The difficulties encountered at slippery spots always arise when an apartment is repaired. And indeed we have, in essence, undertaken its capital restructuring.

I am placing great hopes on an all-round expansion of the rights of labor collectives and on the democratization of internal production life. Having become the authentic proprietors of enterprises, the workers themselves will be motivated to eliminate maladjustments and losses and to increase their work efficiency considerably.

[Shestakov] And what kind of participation, in your opinion, can the Moscow ministries and agencies offer in solving the capital's severe social and economic problems?

[Salmanov] I recall that the capital's builders helped to build the BAM and to develop the West Siberian oil and gas complex, and they labored on many other shock-work construction projects of the Motherland. Meanwhile, today Moscow lags behind even the average Union-wide level in a number of the most important indicators. There are lines at the polyclinics, and lines for housing....How can this be viewed with indifference? It is necessary to touch the whole world quickly. Ministries and agencies should build here not only impressive administrative buildings but also housing and facilities for social, cultural and domestic amenities. In my view, the integrated regional and branch program, Progress-95, that is now being developed is a good base for their participation in Moscow's development.

It has turned out, however, that not everything is so simple. For a long time now our ministry has not been able to obtain from the Moscow Soviet Ispolkom authorization for creating in the capital its own construction and installing trust. We need it in order to develop a scientific-research base for the branch, to improve the workers' housing and social conditions, and to build medical institutions. We have also thought about creating at the Karamyshevskaya embankment a national geological park with a museum unique for our country.

It is proposed that work within the trust be organized under the rotating duty method, with the recruitment of builders from geological organizations of Central Asia, Kazakhstan, the Transcaucasus and Siberia, which have at their disposal throughout the country building-materials enterprises and lespromkhozhes [integrated logging and lumber enterprises]. We want to form a staff numbering 50 persons by reducing staffs in their capital

institutions. Alas, the matter is standing still, through no fault of ours.

In conclusion, I want to say that we are living in an interesting time. Interesting for active people. And horrible for those who have worked their whole lives by instructions and are afraid of what is new. Alas, we have weaned whole generations away from thinking and showing initiative. Today we need supervisors who are able to assume responsibility, who have their viewpoint, and, the main thing, active people, with their thoughts and concerns, who see beyond tons and meters. *Perestroyka* is being improved for man.

New Anthracite Deposit at Donets
*18220064c Moscow SOTSIALISTICHESKAYA
INDUSTRIYA in Russian 24 Jan 89 p 1*

[Article by M. Rabichev (Rostov Oblast): "The Underground Mine Has Gone into Exploration"]

[Text] The geologists detected in the Don steppes a section with anthracite reserves of almost 300 million tons. The coal seam's thickness exceeds 2 meters, a rarity for modern times. And so the exploration-operations type Sadkinskaya Underground Mine was put into operation in the Ust-Donetsk region.

"It is proposed to build several more mines here," explains I. Kosov, director for capital construction of Rostovugol [Rostov Coal Industry Production Association]. "However, above the anthracite seam, at a depth of 7-30 meters, is quicksand. It is a complicated mine-geology situation. The Sadkinskaya Underground Mine collective is to do the exploration, in work to reveal the industrial value of the new field."

Before the start of tunneling, water-bearing horizons were frozen. For the first time in the branch, the miners have been building a mine with their own efforts. Usually no less than 10 years is required for this. Right now they have been at it for 2 years.

ELECTRIC POWER GENERATION

Regulating Peak Load for Electric-Power Plants Troublesome
*18220058 Moscow SOTSIALISTICHESKAYA
INDUSTRIYA in Russian 11 Jan 89 p 2*

[Article by A. Shidlovskiy, Academician-Secretary of the Ukrainian SSR Academy of Sciences; A. Madoyan, director of the Southern Branch of the All-Union Heat-Engineering Institute and doctor of engineering sciences; and A. Panov, deputy chairman of the Kiev Administration of the VNTO [All-Union Scientific and Engineering Society] of Power-Engineering Workers and Electrical Engineers (Kiev): "Between the 'Peak' and the 'Depression'"; first two paragraphs are source introduction]

[Text] The quality of production, work and daily life right now depends greatly not simply on a reliable but

also on a high-quality electrical supply—one that is stable and steady in frequency and voltage.

Specialists know that, for this purpose, electrical-power engineering should be highly maneuverable, mobile, and quick to react to all changes in the grid. While formerly the daily peak consumption of electricity occurred as a rule during the morning hours (industry worked basically the first shift), right now a second peak has sharply announced itself—an evening peak, when television sets are turned on in apartments and the second shift is at work. But now, at night, when the bulk of the power by consumers is turned off, there arises a so-called "depression" of power consumption which each year is becoming increasingly deep.

If electric-power engineering does not have enough mobile, flexible electric-power stations, it is not in a position to provide good quality electricity because of an insufficiency of capacity during peak hours and because of its surplus during the "depression" load. What occurs is what we, unfortunately, constantly come up against: it is not only the power system that is feverish but so are the industrial and agricultural enterprises that must switch off when there is a sharp rise in the load. And this is no joke! There cannot be good-quality output if the main energy carrier does not meet the strict requirements of the technology. It is known that for superprecise output, deviation in frequency should not be more than one one-hundredth of a Hertz. How can flexible automated production facilities, rotary lines, precision machine tools, computers, delicate medical equipment and scientific apparatus operate if the grid's frequency happens to fluctuate within the range of one Hertz? Let alone hundredths!

Back in 1980 a scientific and engineering commission of the USSR State Committee for Science and Technology determined that annual losses to the national economy from violations of the quality of electricity averaged 2 billion rubles. In the years that have elapsed since then, something has been done in the industry—electric-power engineering has started to be rebuilt and modernized. And at this critical time it is important to ponder the mistakes that have been made in order not to repeat them henceforth.

The expenditure-type economic mechanism, the departmental approach, and gigantomania in the stagnant period of our economy led to considerable distortion in the power-engineering development strategy. In the country's eastern part this was manifested by unjustifiably high capital investment in hydropower, in the European portion in nuclear power.

What is the way out of the situation that has been created? Apparently it is necessary radically to reexamine our whole power-engineering policy. The question is not that of rejecting the atom or hydropower but that of sharply reducing expenditures in these areas with a view to reviving thermal power engineering, whose potential still has not been completely spent.

The inertia of conservative thought works like a fly-wheel—nuclear and thermal power stations are designed and built in base-load and modular versions, and this leads to a further degradation in quality of the electricity. Moreover, in order to regulate electrical loads, base-load thermal power stations, which are completely unadaptable to this purpose, have been used. Just as one should expect, they did not get away with it. The highly maneuverable operation that they were compelled to use, plus low fuel quality, led to a drop in the reliability and economy of the boilers. Their efficiency decreased 20-25 percent. Fuel consumption grew substantially.

An analysis of the state of affairs of the past 10 years indicated that, together with the increase in capacity at power stations, especially nuclear, the problem of regulating variable loads in power systems was further aggravated. Nuclear power stations, as is known, can operate only in a prescribed (base-load) mode. In no way can one speak about manipulating them in the near future, at least out of safety considerations. The mounting volume of AES construction in the Ukraine, let us say, is not [as published] aggravating the problem of electricity quality so much that TES's with power units of 800,000 kW are now being involved in load regulation.

Is there at least some kind of a strategy here? The question is not rhetorical. For the right hand does not know what the left one is doing. We build AES's of unregulatable capacity and, at the same time, gradually demolish the thermal stations with which to regulate this capacity.

It can be said, there are hydraulic and pumped-storage electric-power stations that are intended precisely to regulate variable loads. Unfortunately, the potential of GES's and GAES's [pumped-storage electric-power stations] is limited and is already being utilized, basically. Therefore, we cannot get along without a radical restructuring of the traditional thermal power engineering.

The modular principle of erecting TES's with power units which, in essence, constitute several assembled power stations instead of individual ones, which has been dominant in the past 20 years, has practically been exhausted. And here is why.

Nonequivalent elements operate in the single-module configuration: on the one hand, highly reliable turbogenerators and transformers and, on the other, boilers and auxiliary equipment that account for up to 90 percent of the breakdowns in electric-power operation.

What is happening?

Studies of actual power-engineering equipment by the Southern Branch of the All-Union Heat-Engineering Institute have opened up a possibility for eliminating these deficiencies. A variant of a multiple-module thermal power station, which is basically a new approach to equipment configuration, has been developed and

tested. While functionally different units operate in a single-module, in a multiple-module configuration groups of turbine-generator sets, boiler installations and fuel-preparation, cooling and other TES systems are linked together. The power station becomes a unified mutually related production facility, within which the possibility has been created for manipulating operation of the equipment. Even partial changes of the scheme of currently operating TES's with 300,000 kW power units that are operating under the multiple-module principle (let us say, if the auxiliary equipment is unified in a single module) provide a 4-fold increase in power station flexibility.

Every basis exists for asserting that, under actual conditions, the construction of mobile peak-power TES's in the multiple-module variant, which uses low-grade solid fuel, the explored reserves of which in the Ukraine alone comprise more than 30 billion tons, is a radical solution of a most severe problem.

However, specialists of the Southern Branch of the All-Union Heat Engineering Institute, even with the support of the Ukrainian SSR Academy of Sciences, have been working more than 10 years on their development, but this in no way can shake the bastions of USSR Minenergo [Ministry of Power and Electrification]. It is interesting—what are they thinking about behind these bastions?

Hydroelectric Power Seen as 'Ecologically Clean'
18220047 Moscow PRAVDA in Russian 30 Jan 89 p 2

[Interview with Boris Grigoryevich Kartelev, Director of the All-Union NII for Hydraulic Engineering imeni B. Ye. Vedeneyev, candidate of engineering sciences, and chairman of the Soviet Committee of the International Association for Hydraulic Research, by A. Avdeyev (Leningrad): "In Tune with Nature"; first paragraph is source introduction]

[Text] B. Kartelev, Director of the All-Union NII [Scientific-Research Institute] for Hydraulic Engineering imeni B. Ye. Vedeneyev, candidate of engineering sciences, and Chairman of the Soviet Committee of the International Association for Hydraulics Research, considers hydropower to be the future in developing the country's power-engineering potential.

[Avdeyev] Boris Grigoryevich, what is the basis for this assurance? In this case, does it not prove to be a striving to protect the "honor of the uniform," which is seriously aroused during a discussion about the long term prospects for power engineering?

[Kartelev] On the professional conviction that hydropower is the most ecologically clean method for getting electricity, whose source is an inexhaustible and renewable natural resource—water. It has flowed, is flowing and will flow. Another thing—we will have to

learn to use water intelligently, so that, in making use of it, we do not cause harm to the environment.

We actually have no few "spots" on our uniform: in the form of reservoirs small in scale which violate the ecological balance in some regions and have caused adverse effects on nature.

[Avdeyev] But indeed these violations and the consequences that accompany them, obviously they are explained by an unambiguity of causes?

[Kartev] This is so. For a long time we scorned simple truths and ignored the recommendations of science.

The origins of Soviet hydropower engineering were excellent. Hydroengineering scientists then felt keenly not only the economic importance of the matter but also the ecological responsibility. During development and realization of the GOELRO [State Commission for the Electrification of Russia] plan they carefully considered everything. They were solicitously concerned about preserving fertile croplands, grasslands and forest stands when building GES's in the plains. They called, for example, for building embankments, deepening the bed of future reservoirs, and reducing their water area. This was done at first at Volkhov and Svir'. Structures were built that took all ecological factors into account.

But embankments and dikes are very expensive, they require skilled calculations and substantial labor expenditure. The needs of industrialization were pursued, and inexpensiveness was demanded. The ideas of Academician B. Ye. Vedeneyev and his scientific school of hydropower engineering were sort of set aside as second priority. Vedeneyev's attempts to speak out against cheapening GES construction to the detriment of nature and, later, to oppose the plan for the creation of a system of "man-made" seas on the Volga miraculously did not make him an "enemy of the people," but the scientist went to his grave prematurely. Giantism, frank hackwork design, and the "gross" approach have reigned in hydraulic construction work. We must now, in essence, restore the normal highly professional work.

[Avdeyev] What do you see as the route to this aim?

[Kartev] The full rebuilding of the whole branch system. It has been maintaining its position as bearer of the ideas of hackwork and false savings. There is a substructure under it, an administrative staff with a multilevel structure, in place of which a structure must be introduced that is genuinely democratic and will guarantee society an acceleration of scientific and engineering progress.

The old system does not have a right to life. It greets science's recommendations almost with hostility. The designers ignore the scientists. The builders also behave independently: they deal freely with the designs. They implement unimproved designs as being simpler, more

convenient and cheaper for themselves. Nature takes revenge for perversions in a logical chain of ties, and society criticizes us correctly.

The procedure should, in my opinion, be like this. Science develops and recommends new engineering solutions, operating schemes, constructional structure and materials. The designers are obliged to incorporate them in the designs. The builders should work in accordance with the design, without deviations.

There is in modern hydraulic engineering a sufficiency of ideas that have been verified experimentally but have not been realized. Competitive principles should be introduced into design-work practice. This is done throughout the whole world, except for us. The absence of competition has been manifested also in poor preliminary surveys.

Each new design should have several variants, and honest competition of designers for confirmation of scientific newness, technical feasibility, economy, and ecological safety of its proposals are necessary.

[Avdeyev] Does this mean that today one design organization—Gidroproyekt [All-Union Survey, Design and Scientific-Research Institute] imeni S. Ya. Zhuk—is not sufficient and another similar institute is needed, or several of them?

[Kartev] There are proponents of this radical idea. I am not one of them. I consider that branches of the Institute imeni S. Ya. Zhuk and all its creative subunits are obligated literally to get their work themselves—only through open competition, each in several phases. Many people are afraid that some designers will idle. But in creativity, no one can be insured against defeats. The yield even in such cases is seen as a growth in professionalism of the specialists, in the quality of the designs.

As for the material aspect, all participants in competitions, in my opinion, should receive for the work a definite minimum award, out of the competition fund, but the maximum—in the form of the order—goes to the winner. Obviously, such a step is possible where obsolete standards have been rejected, standards under which only about 3 percent of the cost of the facility is allocated for scientific studies and for design work on hydraulic engineering structures, whereas in other countries the figure is as much as 10 percent. And new institutes are not needed. The work of the existing potential must be organized anew.

[Avdeyev] Your arguments can be taken this way: the competition system will guarantee the broad society a preliminary familiarity with the designs?

[Kartev] Why not? Even at the stage of preliminary design work it will be possible to acquaint society with all the details of development.

Today we have a different picture. Designs are developed in one variant. And although they are not without defects, power stations are built from them. Society, not without justification, sees in such "raw-material" designs possible annoyances for an environment of habitation. It is not accidental that some of the designs approved by the Power-Engineering Program have already been excluded from the national economic plan because of the dubiousness of the solutions for some of the economic and, especially, ecological problems.

Right now the draft of the new USSR Power-Engineering Program up to the Year 2010 is being reviewed. I consider that before being approved it should be the subject of nationwide discussion, and each job should have competition protection.

[Avdeyev] It is known that the USSR's power-engineering system is suffering seriously and will not be unified and self-contained, some not having hydropower stations, which today are the best energy regulators. How, in your view, should this problem be solved?

[Kartev] Actually, GES's are not just an energy source, but the sole reliable resource capable, even where the capacity is relatively small, of smoothing out the so-called peak power-load curves during hours of maximum demand for electricity. Thermal and nuclear-power stations, because of purely technical characteristics, cannot meet this requirement.

Thermal power-engineering in the not-so-distant future will become obsolete. It devours enormous amounts of fuel, poisons nature with toxic smoke, dust and ash heaps, and burns the atmosphere's oxygen.

Nuclear power is, to me, debatable, despite the specialists' optimism. Right now I consider it correct that AES construction was slowed down because of the increased danger that comes from the problems of burying radioactive waste.

So it is that the undisputable alternative to TES's and AES's are GES's. They should be built only if guided by the uncompromising recommendations of science. In this case we will be able to solve painlessly, even for nature, the task of creating a unified, self-contained USSR power-engineering system.

[Avdeyev] Nevertheless, the country has far fewer GES's than TES's and AES's.

[Kartev] That is why, in the near future, we shall have to construct in cities and in the plains tens of hydropower stations of various types. Gigantic ones will have to be turned down. Hydraulic-engineering complexes should be built, preserving to the maximum the whole economic infrastructure and natural landscape adjacent to it.

[Avdeyev] It is no secret that no fewer than a third of the country's GES's have already been operated for their service life and in the next decade their equipment will have to be dismantled and they will have to be rebuilt. Will it be possible to correct the mistakes previously committed during these operations?

[Kartev] Not only can but must. From the engineering point of view, this is completely feasible. At some hydrostations the head of water can be lowered. It is completely realistic, for example, to build on the Volga cascade a levee for reservoirs with a one-time deepening of their beds, and to cut off all shallow waters with dams. This will enable hundreds of thousands of hectares of farmland to be returned to the national economy and fisheries to be resurrected. The large material expenditures will be returned to the people in the form of income from the rebirth of economic activity on lands that now are flooded, and the health of the environment will be improved.

Anti-Hydroelectric Power Sentiments Aired

18220045 Moscow PRAVDA in Russian 3 Jan 89 p 2

[Letter by A. Marchuk, doctor of engineering sciences (Moscow): "Is a Speedy Trial Always Right?"]

[Text] Highly respected editor! My desire to speak out in the press is explained by the fact that a number of statements against the construction of hydropower stations has appeared in some newspapers and magazines. O. Litifi's article, "The Dam," (PRAVDA, 21 Nov 88) touches on protection of the Aral Sea, among other problems. I consider it unwise to enter into a dispute with the author in regard to his critical remarks about me. I assume that the participants of the conference conducted in Tajikistan will report about this.

As for the item, "The Dam Burst," I gave O. Latifi the opinion that it was not fair to associate the accident at the "tiny" Sargazon dam, which did not hold back the rain runoff, with the seismic resistance of the gigantic Rogun dam. Although the purpose of my business trip to Rogun was something entirely different, I considered it my duty to get to the essence of the PRAVDA statement quickly.

At a special conference at Rogun, officials of USSR Minenergo [Ministry of Power and Electrification] and Gidroyekt [All-Union Survey, Design and Scientific-Research Institute imeni S. Ya. Zhuk], jointly with the Institute of Seismic-Resistant Construction and Seismology of the Tajik SSR Academy of Sciences, were charged with additional research on the dam's stability under the greatest possible seismic loads. This work has not been finished yet because the institute, which is directed by Comrade Mirzoyev, has not yet issued the primary data for the substantiating calculations, although research was done in 1968 and more than a million rubles of the estimated 5.1 million rubles allocated to it has been spent.

Writers and the mass media at times make judgments about the dam and hydropower engineering. The press calls it a "discussion," a softer word. It is not difficult to estimate that in the last two years central newspapers and magazines alone have published more than 60 articles against dam construction. And only six articles were "for," but they were accompanied by editorial commentary and, accordingly, selected letters. Unable to answer all these charges within the bounds of this article, I shall note only the frequently repeated misconceptions.

First, why is it considered that we have too many dams and there is little sense to them. Entirely to the contrary. Hydropower's share in the country's fuel and power balance has been halved in the past 15 years—from 5.6 percent to 2.8. Decisions adopted back in 1980 about the hydropower-station construction program up to 1990 will be fulfilled by only 62 percent.

Instead of using an eternally renewable source with an efficiency of 0.96, we are forcing our fuel-extracting industries to dig ever deeper into the ground in the search for coal, oil, gas and uranium to get energy from them, energy whose efficiency is three times less. Because of this the profitability of electric-power stations has dropped from 14 percent to 8, and thermal power stations and rail transport are operating under great strain.

GES energy is irreplaceable when electric power must be quickly dumped or raised for the customer. In winter the peak load in the European part of the USSR grows at a rate of 300,000 kW in a minute. Only highly maneuverable hydropower units can cover it quickly enough. Nor should one forget about the overall complicated situation in power engineering. The AES construction program has been reduced, and much work must be done to increase AES safety and to rebuild thermal power stations, a third of which have worked out their designed service life.

Second, are the proposed alternatives not indisputable—to save electricity and to use solar, wind and other ecologically clean power stations, as well as small GES's? It goes without saying that nontraditional sources of energy, which can yield up to 3 percent of the country's energy potential, must be used. The USSR Power-Engineering Program calls for this. However, calculations indicate that these measures do not obviate the need for a 1.6-fold increase in the rated capacity of electric-power stations by the year 2000. Even in this case there is a shortfall in the fuel and power-engineering balance. And when people are cold they turn on electric heating appliances. Electricity can be used for heating only when it comes at a low prime cost of generation, from "fuel-free" GES's and also from AES's.

Charges are also sounded about gigantomania. Well, a big country needs a lot of energy. The capacity of the base-load TES's and AES's, in growing to 1.2-1.2 million

kW, requires a maneuvering energy potential of commensurate scale. Only large GES's with large reservoirs can serve as an emergency strategic reserve for the country in case of stoppage of the strip coal mines (for example, because of bitter cold), fires at TES's, AES's being withdrawn from operation, snowdrifts on railroads, and so on. The country's unified power system should be reliable.

Third, the opinion about ecological harm from GES's is a misconception. They have no harmful discharges of any kind. The introduction into operation of GES's that are planned for construction up to the year 2000 will enable ash discharges to be reduced by 22 million tons, oxides of sulfur by 2.9 million tons, and toxic oxides of nitrogen by 1.6 million tons. One hundred seventy-five million cubic meters of oxygen will be saved from combustion.

Reservoirs are depicted as the main cause of the loss of agricultural land and of forest, deterioration in quality of the water, and the death of fish. The area of land flooded is repeatedly compared with the area of France, although France's area is 20-fold that of the land flooded by reservoirs. Of course the builders are not without sin here, especially in the past. But for the sake of objectivity, it must be said that in total amount of land expropriated for nonagricultural needs, the construction of GES's comprises only 5 percent, including agricultural land 0.7 percent. And flooding will be reduced 2-fold to 5-fold in future hydraulic-engineering complexes.

According to the data of USSR Minrybkhkh [Ministry of the Fish Industry] scientists, 744,000 tons of fish were caught in the country's inland waters in 1940, but 1.168 million were caught in 1985. Traps in the Caspian Sea basin increased during this period from 238,000 tons to 273,500, including sturgeon from 14,000 tons to 22,800. The main cause of low fish productivity and the worsening of water quality has been untreated effluent and rain runoff of pesticides and fertilizer from fields.

Hydraulic engineering complexes fulfill a most important social function—a saving of labor and an improvement in living conditions at the fuel and power complex and in the national economy as a whole. Today, labor productivity at GES's is 7-fold to 10-fold higher, the wage fund is considerably lower than at TES's and AES's, personnel turnover is half as much, and morbidity is one-third less.

The erection of large hydraulic-engineering projects must not be viewed as a problem of a branch or a region. From the point of view of the branch, it is more advantageous to build thermal power stations which are half as capital-intensive, letting other branches worry about extracting and transporting fuel. It is not advantageous to the regions of construction to turn over their land, forest and farmlands and to resettle people. But the

country has a centralized system for distributing water and power-engineering resources and of deploying productive forces.

It is the USSR Unified Power-Engineering System—a most important achievement of the socialist economy—that enables, despite all the difficulties, an electric power supply to be provided almost continuously to the economy and to the people. The advantage here is colossal! Of course this systems must be developed in combination with nationwide and regionwide interests, and with maximum consideration of the needs of the local population and observance of the requirements for nature conservation. Alas, the considerations cited do not always receive attention when discussing dam design.

Repeated errors are not harmless, as may appear at first glance. They definitely affect public opinion. People who have written letters of protest certainly do not know that a refusal to build any GES's means an irretrievable loss of a portion of the country's renewable energy resources, further pollution of the atmosphere, the enlistment of thousands of new workers in underground coal mines and in strip coal mines, in the tundra and at Yamal in oil and gas field installations, and at hot boilers and in railroad transport. I doubt whether they know that there are 10 times as many unfortunate fatal incidents at thermal electric-power stations, and, taking the fuel base and transport into account, a hundred times as many as at GES's.

Public opinion is becoming a real force. It helped to defend the purity of Baykal and to stop vast expenditures on the rerouting of a portion of the flow of northern rivers and on construction of the poorly efficient Daugavpilsskaya GES.

But along with this, public opinion should act in a positive and constructive manner. Construction of the Katunskaya and Turukhanskaya GES's has been stopped for the time being, and completion of construction of the Cheboksarskaya and Nizhnekamskaya GES's is being delayed. Suggestions have been made to refrain from erecting the Yeniseyskaya GES's and the Dalnerechenskiy hydraulic-engineering complex and to reduce the height of the Rogunskaya and Khudonskaya GES's.

The newspaper SOVETSKAYA ROSSIYA wants to dismantle the Volga dams entirely. Students from Tbilisi are blocking construction of the Khudonskaya GES. Candidates for university schooling are not going to the hydraulic-engineering departments of the country's best vuzes—MEI [Moscow Power-Engineering Institute], MISI [Moscow Construction-Engineering Institute imeni V. V. Kuybyshev], and LPI [Leningrad Polytechnic Institute imeni M. I. Kalinin]....

Today public opinion is objecting to the construction of more than 30 electric-power stations of various types that have a total capacity of about 80 million kilowatts. But indeed the country's national income depends

directly upon its power potential, while labor productivity depends upon the power-worker ratio. Where, then, is the energy to come from?

As for dams specifically, then it is actually time to convert from ostracism to the practical collaboration of ecologists and power workers, as is being done throughout the whole world.

1150 KV Line Connects Urals with Kazakhstan
18220034a Moscow IZVESTIYA in Russian
30 Jan 89 p 1

[Article by S. Olegov: "An Electrical River on Supports"]

[Text] Construction of the last segment of the world's highest powered electrical-transmission line—the LEP-1150 [1150-KV electric-power transmission line], which connects industrial regions of the Urals with Kazakhstan's power center—Ekibastuz—has been completed.

In the specialists' opinion, this event goes far beyond the framework of an ordinary engineering operation. For example, the chief of a Kustanay enterprise—the All-Union Production Association Dalniye peredachi—Yu. Belozеров says:

"In essence, with introduction into operation of the Kustanay-Chelyabinsk section, still another step in the wide-scale scientific-and-industrial experiment of creating a superhigh-voltage electric-power transmission system within the country has been finished. Before this, neither we nor others abroad had any experience in sending 1,150 KV over wires. The problem lay simultaneously in the technological aspect of the matter and the absence of unique equipment."

"What is the advantage of the new power line over, let's say, an LEP-500?"

"Figuratively speaking, the LEP-500 is like a brook compared with this river of power, which goes over a new streambed. Naturally, by virtue of its low power the LEP-500 cannot satisfy the rising requirements of industrial centers for this basic type of energy. But the LEP-1150 here can accomplish this task. Judge for yourself. By itself it can provide our cities with an energy flow of as much power as six 500-kilovolt lines will transmit, its energy loss being 5-fold less.

"Moreover, replacing LEP-500 lines with lines similar to the latter will enable metal consumption to be reduced by 100,000 tons, wire consumption by 50,000 tons. Now it will be possible to use again 32,000 hectares of land previously taken out of circulation."

Peak Load Efficiency of Power Plants Discussed
*18220034b Moscow, SOTSIALISTICHESKAYA
INDUSTRIYA in Russian 11 Jan 89 p 2*

[Article by A. Shidlovskiy, Academician-Secretary of AN USSR [Ukrainian SSR Academy of Sciences]; A. Madoyan, Director of the Southern Branch of the All-Union Heat-Engineering Institute and doctor of engineering sciences; and A. Panov, Deputy Chairman of the Kiev Board of VNTS [All-Union Scientific and Engineering Society] of Power Engineers and Electrical Engineers (Kiev): "Between the 'Peak' and the 'Valley'"; first two paragraphs are source introduction]

[Text] The quality of production, work and household activities depends increasingly not simply upon a reliable but also upon a high-quality power supply—one that is stable and steady in frequency and voltage.

Specialists know that, for this purpose, electric-power engineering should be highly flexible, versatile and highly reactive to all changes in the grid. While previously the daily peak electric-power consumption occurred as a rule in the morning hours (industry basically operated in the first shift), right now a second peak has announced itself—in the evening, when television sets are switched on in apartments and the second shift is at work. But now at night, when the main portion of the consumers have been switched off, a so-called "valley" in energy consumption arises which becomes increasingly deeper each year.

If power engineering does not have a sufficient number of versatile, flexible power stations, then it is not in a position to supply good-quality electricity, because of an inadequacy of capacity during the peak hours and because of a surplus of it in the valley portion of the load curve. That is, we happen to encounter this often: it makes not only the power system feverish but also industrial and agricultural enterprises, which have to switch off during the hours of a sharply increased load. And this is no joke! There can be no high-quality output if the basic energy-bearer does not meet the strict requirements of the technology. It is known that for super-precision output, deviation of the frequency should not be more than one one-hundredth of a Hertz. How can flexible automated production facilities, rotary lines, precision machine tools, computers, precision medical equipment and scientific apparatus operate if the grid's frequency, as happens, fluctuates within one Hertz? What you need is hundredths!

Back in 1980 the science and engineering commission of USSR Goskomitet [State Committee] for Science and Technology determined that annual losses in the country's economy from violations of electric-power quality averaged 2 billion rubles. In the years since then something has been done—we began to rebuild and modernize electric-power engineering. And it is important to ponder the errors committed during this responsible period in order not to repeat them from now on.

The spending-type economic mechanism, the bureaucratic approach and gigantomania during the stagnant period of our economy led to a considerable distortion in the strategy for developing power engineering. In the eastern part of the country it was manifested in unjustifiably high capital investment in hydropower and, in the European part, in nuclear engineering.

Where is the way out of the situation that has been created? Evidently, our whole power-engineering policy must be radically reviewed. It is a question not of dispensing with nuclear or hydropower engineering but of sharply reducing expenditures in these areas with a view to restoring a potential of heat engineering that still has not been completely depleted.

The inertia of conservative thought works like a pendulum—nuclear and thermal power stations in base-load power-unit variants are being designed and erected, and this leads to an increasing deterioration in the quality of electric power. Moreover, we began to use base thermal power stations for regulating electrical loads, a purpose for which they were not at all adapted. As should have been expected, this had serious consequences for them. The highly flexible operating mode, whose use was forced, at a time, moreover, when low-quality fuel was being used, led to a drop in boiler reliability and economy. Boiler KPD [efficiency] decreased 20-25 percent. Fuel costs grew greatly.

An analysis of the state of affairs over the last 10 years indicated that, together with a buildup in capacity at electric-power stations, especially nuclear ones, the problem of regulating variable loads in power systems is still intensifying. Nuclear power stations, as is well known, can operate only in a prescribed (base-load) mode. They cannot do any kind of adjusting, and it is out of the question for the near future, for safety considerations at least. The growing volume of AES construction in, let us say, the Ukraine intensifies the problem of the quality of electricity so much that, already today, TES's with 800,000 kilowatt units are drawn upon for load control.

Is there here at least some kind of a strategy? The question is not rhetorical. For the right hands does not know what the left one is doing. We build AES's with unregulatable capacity and, at the same time, we gradually ruin thermal power stations in order to regulate this capacity.

It can be said that there are hydraulic and pumped-storage electric-power stations intended precisely for regulating variable loads. Unfortunately, the potential of the GES's and GAES's [pumped-storage electric-power stations] is limited and, basically, are already being used. That is why we cannot get along without a radical restructuring of the traditional thermal electric-power engineering.

The power-unit principle of erecting TES's with units which essentially are several separate electric-power stations mounted together, which has predominated during the past 20 years, has practically exhausted itself. And here is why.

In the single-unit configuration, elements unequal in value operate: on the one hand there are highly reliable turbogenerators and transformers, and, on the other, there are boilers and auxiliary equipment that account for up to 90 percent of the breakdowns in power-station operation.

What to do?

Studies made by the Southern Branch of the All-Union Heat-Engineering Institute on actual power-engineering equipment found a possibility for eliminating these inadequacies. A variant of the multiple-unit thermal power station which is basically a new approach to configuring the equipment was developed. While in a single power unit various functional units are operating, in the multiple-unit configuration groups of turbogenerator sets, boiler installations, and fuel-preparation, cooling and other TES systems are joined together. The

power station becomes a single interrelated production facility, within which the potential for manipulating equipment operation is created. Even partial changes in the scheme for currently existing TES's that have 300,000-kilowatt power units provide, under the multiple-unit principle (let us say, if the auxiliary equipment is united into a single unit), a 4-fold increase in power-station flexibility.

All the grounds exist for confirming that, under actual conditions, the construction of flexible peak-power TES's in a multiple-unit variant that uses low-grade solid fuel, the explored reserves of which in the Ukraine alone consist of more than 30 billion tons, provides a radical solution for a most severe problem.

However, specialists of the Southern Branch of the All-Union Heat-Engineering Institute, even with the support of the Ukrainian SSR Academy of Sciences, have for more than 10 years been pushing its developments through but has not been able at all to shake the deaf bastions of USSR Minenergo [Ministry of Power and Electrification]. It is interesting—what are they thinking about behind these bastions?

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